

NEOGEN CORP
Form 10-K
July 29, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended May 31, 2011

.. 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)*

38-236784
*(I.R.S. Employer
Identification No.)*

620 Leshar Place

Lansing, Michigan 48912

(Address of principal executive offices including zip code)

517-372-9200

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$0.16 par value per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. 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 (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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

(Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Based on the closing sale price on November 30, 2010 the aggregate market value of the voting stock held by non-affiliates of the registrant was \$799,000,000. For these purposes, the registrant considers its Directors and executive officers to be its only affiliates.

The number of outstanding shares of the registrant's Common Stock was 23,302,000 on June 30, 2011.

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DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive proxy statement to be prepared pursuant to regulation 14a and filed in connection with solicitation of proxies for its October 6, 2011 annual meeting of shareholders is incorporated by reference into part III of this Form 10-K.

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Subsidiaries

Consent of independent registered public accounting firm Ernst & Young LLP

Section 302 Certification of Chief Executive Officer

Section 302 Certification of Chief Financial Officer

Section 1350 Certification pursuant to Section 906

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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 Annual Report on Form 10-K, including statements relating to management's expectations regarding new product introductions; the adequacy of the Company's sources for certain components, raw materials and finished products; and the Company's ability to utilize certain inventory. 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 that could cause Neogen Corporation's results to differ materially from those indicated by such forward-looking statements, including those detailed in ITEM 1A. RISK FACTORS and under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Future Operating Results.

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

Table of Contents**PART I.****ITEM 1. BUSINESS**

Neogen Corporation and subsidiaries (Neogen or the Company) develop, manufacture, and market a diverse line of products dedicated to food and animal safety. The Company's food safety segment consists primarily of diagnostic test kits and complementary products (e.g., dehydrated culture media) marketed by company sales personnel in North America, the United Kingdom and other parts of Europe, Mexico and Brazil, and by distributors elsewhere to food producers and processors to detect dangerous and/or unintended substances in human food and animal feed, such as foodborne pathogens, spoilage organisms, natural toxins, food allergens, genetic modifications, ruminant by-products, drug residues, pesticide residues and general sanitation concerns. The diagnostic test kits are generally less expensive, easier to use and provide greater accuracy and speed than conventional diagnostic methods. The majority of the tests are disposable, single-use, immunoassay and gene probe products that rely on the Company's proprietary antibodies and RNA and DNA probes to produce rapid and accurate test results. The Company's expanding line of food safety products also includes bioluminescence-based diagnostic technology.

Neogen's animal safety segment is engaged in the development, manufacture and marketing of pharmaceuticals, rodenticides, disinfectants, vaccines, veterinary instruments, topicals and diagnostic products and genetic testing services for the worldwide animal safety market. The majority of these consumable products are marketed through a network of national and international distributors, as well as a number of large farm supply retail chains in the United States and Canada. The Company's USDA-licensed facility in Lansing, MI, produces immunostimulant products for horses and dogs, and a unique equine botulism vaccine. The Company's line of drug detection products are sold worldwide for the detection of abused and therapeutic drugs in animals and animal products.

Management's vision is for Neogen to become a world leader in development and marketing of products dedicated to food and animal safety. To meet this vision, a growth strategy consisting of the following elements has been developed: (i) increasing sales of existing products; (ii) introducing new products and product lines; (iii) expanding international sales; and (iv) acquiring businesses and forming strategic alliances. While the elements of the strategy are stated in order of importance over the long term, management believes that strategic acquisitions may provide the best opportunity for more rapid growth in the short term. For that reason, an active acquisition program is maintained and financial and other resources are maintained to capitalize on opportunities as they arise.

Neogen Corporation was formed as a Michigan corporation in June 1981 and actual operations began in 1982. The Company's principal executive offices are located at 620 Leshar Place, Lansing, Michigan 48912-1595 and its telephone number is (517) 372-9200.

Neogen's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge via our Internet website (www.neogen.com) as soon as reasonably practicable after such information is filed with, or furnished to, the United States Securities and Exchange Commission.

PRODUCTS

Product trademarks and registered trademarks owned by Neogen include: Corporate: Acumedia®, Neogen®, Neogen flask®; Food Safety: AccuClean®, AccuPoint®, AccuScan®, Agri-Screen®, Alert®, BetaStar®, BioPlate®, Centru®, GeneQuence®, GENE-TRAK®, ISO-GRID®, Microbiology at the Speed of Light®, NeoColumn®, NEO-GRID®, Penzym®, Penzym®, Reveal®, Revive®, Soleris®, TetraStar®, Veratox®; Life Sciences: K-Blue®, K-Gold®, Rodenticides: Cat Logo®, CyKill®, Di-Kill®, One Bad Cat®, Promar®, Ramik®, Rodex®; Animal Safety: Ag-TeK®, AluShield®, BottomHoof®, BotVax®, BreederSleeve®, Calf Eze®, Correct®, D3 Needles®, DC&R®, Dr. Franks®, ElectroJac®, ELISA Technologies®, Eqimax®, EqStim®, EquiSleeve®, E-Z Bond®, E-Z Catch®, Furazone®, GeneSeek®, Genomic Solutions for Food Security®, Gnat-Away®, Gnatural®, Gold Nugget®, Gold Wrap®, Ideal®, ImmunoRegulin®, ImmunoVet®, Injecto-Stik®, Insight®, ISO-Prine®, Jolt®, MaxiShot®, MegaShot®, Mini-Shot®, Molecular Solutions for Life®, MycAseptic®, NeedleGard®, NFZ®, Paddock & Pasture®, PanaKare®, ParvoLyf®, PolyHand®, PolyPetite®, PolyShield®, PolySleeve®, Poridon®, Pro-Fix®, Pro-Flex®, Pro-Pistol®, Pro-Shot®, Pyril-Pam®, RenaKare®, Rot-Not®, Safe-T-Flex®, SeekGain®, SeekSire®, SeekTrack®, Shine N' Glo®, Spec-Tuss®, Spectrasol®, Squam-N-Aid®, Stress-DeK®, TCA Paint®, ThrushCrusher®, ThyroKare®, TopHoof®, Tri-Fit®, Tri-Seal®, Triple Block®, Triple Cast®, Triple Crown®, Triple Heat®, Tri-Seal®, Tri-Soxsuprine®, UriCad®, UriKare®, Vet-Tie®, Vita-15®; BioSentry agricultural cleaners and disinfectants: Acid-A-Foam®, BioCres®, BioPhene®, BioQuat®, Chlor-A-Foam®, Evap®, GenQuat®.

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Neogen operates in two primary business areas: the Food Safety segment, which develops and markets products for the detection of pathogens, natural toxins and other unwanted substances in food and feed products; and the Animal Safety segment, which develops and markets products and services dedicated to animal health. See Notes to Consolidated Financial Statements elsewhere in this Form 10-K for financial information about the Company's business segments and international operations.

FOOD SAFETY SEGMENT

The products of Neogen's food safety segment consist of diagnostic test kits and complementary products marketed to food and feed producers and processors to detect dangerous and/or unintended substances in food and animal feed, such as foodborne pathogens, spoilage organisms, natural toxins, food allergens, genetic modifications, ruminant by-products, drug residues, pesticide residues and general sanitation concerns.

Many of Neogen's food safety test kits use immunoassay technology to rapidly detect target substances. The Company's ability to produce superior antibodies has set its products apart from immunoassay test kits produced and sold by other companies. The Company's kits are available in microwell formats, which allow for the rapid processing of a large number of samples and automated procedures, and lateral flow and other similar devices that provide distinct visual results. Typically test kits use antibody-coated test devices and chemical reagents to produce a color change to indicate a positive or negative result for the presence of a target substance in a test sample. The simplicity of the tests makes them accessible to all levels of food producers, processors and handlers.

The Company's kits are generally based on internally developed technology or technology that is acquired in connection with acquisitions. In 2011, Food Safety incurred royalty expense totaling \$1,050,000 for licenses and royalties for technology used in the Company's products, including expense of \$410,000 for licenses related to the dairy antibiotics product line and \$329,000 for allergen products. All royalty rates are in the low single digit range. Some licenses involve technology that is exclusive to Neogen's use while others are nonexclusive and involve technology licensed to multiple licensees.

Neogen's test kits are used to detect potential hazards in food and animal feed by testers ranging from small local grain elevators to the largest, best-known food and feed processors in the world, and numerous regulatory agencies.

Meat and poultry processors, seafood processors, fruit and vegetable producers and many other market segments are the primary users of the Neogen's Revea[®] and Alert[®] tests for foodborne bacteria, including *E. coli* O157:H7, *Salmonella*, *Listeria* and *Campylobacter*. Grain producers and processors of all types and sizes use the Company's Verato[®], Agri-Screen[®] and Reveal[®] tests for mycotoxins, including aflatoxin, deoxynivalenol, fumonisin, ochratoxin, zearalenone and T-2 toxin, to help ensure product safety and quality. The world's largest producers of cookies, crackers, candy, ice cream, and many other foods, use the Company's Verato[®], Alert[®] and Reveal[®], Reveal 3-D and BioKits testing products for food allergens to help protect their food-allergenic customers from the inadvertent contamination of products with food allergens, such as peanut, milk, casein, egg, almond, wheat (gluten), soy, and hazelnut residues. The Company's December 2009 acquisition of the BioKits food safety business of Gen-Probe Incorporated added more than 50 test kits for food allergens, meat and fish speciation, and plant genetics, including tests in an advanced lateral flow format for gluten and casein.

Dairies are primary users of Neogen's BetaSta[®], BetaStar Combo, Penzyme[®] and TetraStar[®] diagnostic tests to detect the presence of beta lactam and tetracycline antibiotics in milk. The presence of these drugs in milk is a public health hazard, and an economic risk to processors as it limits the milk's further processing.

Neogen developed the first rapid immunoassay test kits to detect ruminant by-products in animal feed ingredients and finished feed. The Reveal[®] tests were designed to help prevent ruminants (cattle, sheep and goats) from being fed rendered materials containing ruminant by-products in an effort to prevent the spread of BSE (a.k.a., mad cow disease) from animal to animal. The Company's specialty products for the seafood market include tests for histamine, a highly allergenic substance that occurs when certain species of fish begin to decay; chloramphenicol, a banned antibiotic in most of the world, but still used by some shrimp farmers to improve the yield of their product; and sulfites, an effective but potentially allergenic shrimp preservative.

Neogen also offers other test methods and products to complement its immunoassay tests. The Company's line of GENE-TRA[®] and GeneQuence[®] assays utilize DNA probe hybridization technology to create exceptionally sensitive and specific tests to detect foodborne bacteria. Instead of using antibodies as in an immunoassay to capture a target pathogen that may be present in a sample, this technology uses a portion of the target pathogen's unique ribosomal RNA (rRNA) sequence to bind to complementary rRNA strands of the pathogen in a sample. The result is a test with the ease and speed of a rapid test method, but the specificity of a time-consuming conventional laboratory method (specificity is a test's ability to distinguish between a target pathogen, and a closely-related but innocuous bacterium).

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Neogen's Soler[®] product is used by food processors to identify the presence of spoilage organisms (e.g., yeast and mold) and other microbiological contamination.

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Neogen's Acumed[®] subsidiary offers dehydrated culture media for varied purposes, including traditional bacterial testing, and growing beneficial bacteria, such as cultures for sausages and beer. The Company's customers for dehydrated culture media also include commercial and research laboratories and producers of pharmaceuticals, cosmetics and veterinary vaccines.

Neogen manufactures and markets its AccuPoint[®] rapid sanitation test for adenosine triphosphate (ATP), a chemical found in all living cells. This easy-to-use and inexpensive test uses bioluminescence to quickly (in less than 30 seconds) determine if a food contact surface has been completely sanitized. When ATP comes into contact with the firefly reagent luciferin luciferase contained in the test device, a reaction takes place that produces light. More light is indicative of higher levels of ATP and a need for more thorough sanitation. The Company's worldwide customer base for its ATP sanitation testing products includes food and beverage processors, the foodservice industry, as well as many other users.

Revenues from Neogen's Food Safety Division accounted for 49.5%, 54.4% and 51.4% of the Company's total revenues for fiscal years ended May 31, 2011, 2010 and 2009, respectively.

ANIMAL SAFETY SEGMENT

Neogen's animal safety segment is engaged in the development, manufacture and marketing of pharmaceuticals, rodenticides, disinfectants, vaccines, veterinary instruments, topicals and diagnostic products to the worldwide animal safety market. Beginning with the acquisition of GeneSeek, Inc. in 2010, the Company provides important genotyping services to animal breeders throughout the world.

Animal Safety's NeogenVet[®] product line provides innovative, value-added, high quality products to the veterinary market. Top NeogenVet products include PanaKare[®], a digestive aid that serves as a replacement therapy where digestion of protein, carbohydrate and fat is inadequate due to exocrine pancreatic insufficiency; Natural Vitamin E-AD, which aids in the prevention and treatment of vitamin deficiencies in swine, cattle and sheep; and RenaKare[®], a supplement for potassium deficiency in cats and dogs. Other products sold under the NeogenVet[®] brand include Vita-15[®] and Liver 7, which are used in the treatment and prevention of nutritional deficiencies in horses.

In 2003, Neogen acquired Hacco, Inc., a manufacturer of rodenticides, including the brand Ramik[®]. On the same date, it also acquired Hess & Clark, Inc. Hess & Clark's principal products are disinfectants, such as DC&R[®], used in animal and food production facilities.

In early fiscal 2009, Neogen acquired a product line of 14 different product formulations used in animal health and hygiene applications from DuPont Animal Health Solutions (DAHS). These products, including 904 Disinfectant, Acid-A-Foam[®], and FarmFluid S[®] added to the Company's strategy of providing biosecurity solutions in the farm production markets. The products also have the potential for use in the veterinary clinic market to maintain sanitary conditions and limit the potential hazards of bacteria, fungi, and viruses.

Neogen's in-house equine protozoal myeloencephalitis (EPM) testing service offers veterinarians accurate, timely results for early diagnosis of the disease that can devastate a horse's central nervous system. In addition, the Company's BotVax[®] vaccine has successfully protected thousands of high-value horses and foals against type B botulism, commonly known as Shaker Foal Syndrome. The Company's product is the only USDA-approved vaccine for the prevention of Type B botulism in horses.

Years of research and many thousands of doses have proven Neogen's EqStim[®] immunostimulant to be safe and effective as a veterinarian-administered adjunct to conventional treatment of equine bacterial and viral respiratory infections. The Company's ImmunoRegulim[®] product uses similar immunostimulant technology to aid in the treatment of pyoderma (a bacterial skin inflammation) in dogs.

Neogen markets a broad line of veterinary instruments and animal health delivery systems under the Ideal product brand name. Approximately 250 different products are offered, many of which are used to deliver animal health products, such as antibiotics and vaccines. Ideal's D3 Needles and the HDN, HDDI and DTN needle product lines that were acquired in the Rivard acquisition are stronger than conventional veterinary needles, and are uniquely detectable by common meat processing facility metal detectors—a big market advantage in the safety-conscious beef and swine industries.

Animal safety products offered by Neogen to the retail over-the-counter market include many of the Ideal brand veterinary instruments and products sold under the Squire[®] and Gold Nugget[®] brands. Squire products include Stress-Dex[®] oral electrolyte replacer for performance horses, and Furazone[®], for the prevention and treatment of surface bacterial infections in wounds, burns and cutaneous ulcers. Gold Nugget OTC products include GNatural[®] Spray, to protect horses from biting insects, and Porido[®], a pour-on insecticide for horses. Ag-Tek[®] and other hoof care, disposables and artificial insemination supplies that were acquired in the Kane acquisition are marketed to the dairy and veterinary industries.

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Neogen's line of approximately 100 drug detection immunoassay test kits are sold worldwide for the detection of approximately 300 abused and therapeutic drugs in farm animals and racing animals, such as horses, greyhounds and camels, and for detection of drug residues in meat and meat products. The test kits are also used for human forensic toxicology drug screening applications. This line includes tests for narcotics, analgesics, stimulants, depressants, tranquilizers, anesthetics, steroids and diuretics.

In April 2010, Neogen acquired GeneSeek, Inc., a leading commercial agricultural genetics testing laboratory in the United States. Geneseek was founded in 1998 and employed 36 people as of the acquisition date. GeneSeek's technology employs high-resolution DNA genotyping for identity and trait analysis in a variety of important animal and agricultural plant species. Through the use of single nucleotide polymorphism (SNP) discovery and analysis, GeneSeek empowers its customers to speed genetic improvement efforts, as well as identify economically important diseases.

Neogen also has several products used by researchers for the detection of biologically-active substances. These products include tests for cyclic nucleotides, hormones, leukotrienes, prostaglandins and steroids. Marketed under the trademarks of K-Blue® and K-Gold®, Neogen offers proprietary substrates that it uses in its own testing products, and that are sold to other diagnostic test kit manufacturers.

Revenues from Neogen's Animal Safety Division accounted for 50.5%, 45.6% and 48.6% of the Company's total revenues for fiscal years ended May 31, 2011, 2010 and 2009, respectively.

GENERAL SALES AND MARKETING

Neogen's sales efforts are generally organized by specific markets, rather than by products or geography. During the fiscal year that ended May 31, 2011, the Company had approximately 6,000 customers for its products. Since many customers for animal safety products are distributors, and certain animal safety products are offered to the general retail market, the total number of end users of the Company's products is considerably greater than 6,000. As of May 31, 2011 a total of 187 employees were assigned to sales and marketing functions within the Company. During the year ended May 31, 2011, no single customer or distributor accounted for 10% or more of the company's revenues. In the year ended May 31, 2010, revenues from one food safety distributor customer were 10.3% of total revenues. No other customer represented in excess of 10% of consolidated revenues.

DOMESTIC SALES AND MARKETING

FOOD SAFETY

To reach each customer and prospect with expertise and experience, Neogen has a staff of specialized food safety sales and technical service representatives assigned to specific markets. This staff sells Company products directly to end users, and also handles technical support issues that arise with customers.

Neogen's food safety markets are comprised of: milling and grain, including grain elevators, feed mills, pet food manufacturers, and grain inspection companies; meat and poultry, including meat and poultry processors, producers of ready-to-eat meat and poultry products; and the USDA's Food Safety Inspection Service (FSIS); grocery products, including flour millers, malters, bakeries, candy and confection manufacturers, manufacturers of prepared meals, nuts, spices, cookies, crackers and other snack foods; fruits and vegetables, including growers and processors of juice and packaged fresh cut grocery items; seafood, including harvesters and processors of a wide variety of seafood products; dairy and beverage, including milk processors and soft drink bottlers; Acumedia dehydrated culture media, including commercial and research laboratories and producers of pharmaceuticals, cosmetics and veterinary vaccines; food service and retail, including fast food service establishments and retail grocery market chains, and nutraceuticals, including producers and marketers of a wide variety of nutraceutical products.

ANIMAL SAFETY

Neogen markets a broad range of pharmaceuticals, vitamin injectibles, wound care products, topicals, instruments, testing services and biologicals to the ethical veterinary market. The product range is focused on the food (cattle and pigs) and companion (horses, dogs,

and cats) animal markets. Neogen's sales group works directly with veterinarians, clinics and universities and markets through established ethical distributors by supporting the efforts of over 500 domestic distributor sales representatives calling on 35,000 plus veterinarians. Neogen further supports its veterinary distribution channel through product training, field support, promotions and technical service.

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The over-the-counter (OTC) animal health market is expected to continue to offer significant growth opportunities for Neogen and its products. Neogen offers a broad range of products including well recognized brands of rodenticides, disinfectants, instruments and horse care products. To reach the OTC market, Neogen's sales team works with a large network of animal health distributors including marketing groups, traditional two-step distributors, catalogers and large retail chains. Support includes product training, field support, planogram solutions, promotions and advertising. As a commercial laboratory, GeneSeek provides services direct to large-herd beef and dairy cattle, swine, poultry and sheep producers.

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INTERNATIONAL SALES AND MARKETING

FOOD SAFETY:

Neogen Europe, Ltd. provides the Company access to the European Union, and allows it to serve its network of customers and distributors throughout the EU. Customers in the United Kingdom, France and Germany are served by Company employees. Other European region customers generally are serviced by distributors managed by Neogen Europe personnel. Neogen Europe's strong research and development continue to be a strong asset in the development of products tailored to meet unique requirements of the European market.

In 2008, Neogen formed a subsidiary in Mexico, Neogen Latinoamérica. The company, headquartered in Mexico City, distributes the Company's food and animal safety products throughout Mexico. Neogen Latinoamérica unifies Neogen's widespread business activities throughout the region to animal and crop producers, and food processors.

In October 2009, Neogen formed a subsidiary in Brazil, Neogen do Brasil (Neogen of Brazil). The new company, headquartered near Sao Paulo, distributes Neogen's food and animal safety products throughout Brazil. Neogen do Brasil was created to accelerate the success of Neogen products in Brazil, which has become one of the world's largest food producers and exporters. Brazil is the world leader in the export of numerous food commodities, including beef, poultry, soybeans, coffee, sugar, and orange juice.

Internationally, outside of the company locations mentioned above, Neogen uses its own sales managers to work closely with and coordinate the efforts of a network of approximately 120 distributors in more than 100 countries. The distributors provide local training and technical support, perform market research, and promote Company products within designated countries around the world.

Neogen's dairy antibiotics diagnostic products are distributed outside of North America, Brazil and China by Denmark based Chr. Hansen, an international supplier of natural ingredient solutions for the food and health and nutritional industries.

Neogen's Soleris diagnostic test system for general spoilage organisms is marketed worldwide by Neogen personnel and the Company's network of distributors.

Since 2002, Neogen has maintained a presence in Shanghai, China, to better serve the expanding food safety market there, as well as more closely manage its Chinese food and animal product procurement. Neogen intends to continue to use local distributors to introduce the Company's products in the Chinese market.

ANIMAL SAFETY:

The Animal Safety's international sales group has established a strong presence in several key markets with rodenticides, disinfectants, instruments, diagnostics and veterinary products. Utilizing company personnel in Brazil and Mexico, as well as in-country distributors and US-based exporters, these markets include Canada, Mexico and Central America, Brazil and South America, the Caribbean, Australia, Europe and Asia.

GENERAL:

International sales accounted for 42.1%, 39.9% and 41.0% of the Company's total revenues for fiscal years ended May 31, 2011, 2010 and 2009, respectively.

Risks associated with foreign operations include the need for regulatory approvals, possible disruptions of product delivery, the differing product needs of foreign customers, difficulties in building and managing foreign operations, fluctuations in the value of foreign currencies, import/export duties and quotas, and unexpected regulatory, economic or political changes in foreign markets.

RESEARCH AND DEVELOPMENT

Management maintains a strong commitment to Neogen's research and development activities. The Company's product development efforts are focused on the enhancement of existing product lines and in development of new products that fit its business strategy. As of May 31, 2011, the Company employed 54 individuals in its research and development department, including immunologists, chemists, engineers and microbiologists. Research and development expenditures were approximately \$6.8 million, \$6.3 million and \$4.6 million representing 4.0%, 4.5% and 3.8% of total revenues in fiscal 2011, 2010 and 2009, respectively. Management currently intends to maintain the Company's research

and development expenditures at approximately 4% to 6% of total revenues.

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Neogen has ongoing development projects for new diagnostic tests and other complementary products for both the food safety and animal safety markets. Management expects that these products will be available for marketing in fiscal years 2012 to 2014. Expenditures in FY-2012 are expected to be approximately 4% of total revenues.

Portions of certain technologies utilized in some products marketed by Neogen were acquired from or developed in collaboration with affiliated partnerships, independent scientists, governmental units, universities and other third parties. The Company has entered into agreements with these parties that provide for the payment of license fees and royalties based upon sales of products that utilize the pertinent technology. License fee and royalties expensed under these agreements amounted to \$1,561,000, \$1,337,000 and \$1,184,000 in 2011, 2010 and 2009, respectively.

PROPRIETARY PROTECTION AND APPROVALS

Neogen uses trade secrets as proprietary protection in numerous of its food and animal safety products. In many cases, the Company has developed unique antibodies capable of detecting microorganisms and residues at minute levels. The supply of these antibodies, and the proprietary techniques utilized for their development, may offer better protection than the filing of patents. Such proprietary reagents are maintained in secure facilities and stored in more than one location to reduce exposure to complete destruction by natural disaster or other means.

Patents and trademarks are applied for whenever appropriate. Since its inception, Neogen has acquired and received more than 50 patents and trademarks, and has several pending patents and trademarks. The patents expire at various times over the next 15 years.

A summary of patents by product categories follows:

| | USA | International | Expiration |
|---|-----|---------------|------------|
| Natural Toxins, Allergens & Drug Residues | 2 | 32 | 2013-2019 |
| Bacterial & General Sanitation | 11 | 3 | 2012-2026 |
| Dry Culture Media & Other | 1 | 0 | 2016 |
| Life Science & Other | 2 | 2 | 2024-2028 |
| Vaccine | 1 | 0 | 2018 |
| Rodenticides & Disinfectants | 0 | 0 | n/a |
| Veterinary Instruments & Other | 6 | 6 | 2020-2022 |

The Company does not expect that the near term expiration of any patent will have a significant effect on future results of operations.

Management believes that Neogen has adequate protection as to proprietary rights for its products. However, it is aware that substantial research has taken place at universities, governmental agencies and other companies throughout the world and that numerous patents have been applied for and issued. To the extent some of the Company's products may now, or in the future, embody technologies protected by patents, copyrights or trade secrets of others, licenses to use such technologies may need to be obtained in order to continue to sell the products. These licenses may not be available on commercially reasonable terms. Failure to obtain any such licenses may delay or prevent the sale of certain new or existing products. In addition, patent litigation is not uncommon. Accordingly, there can be no assurance that the Company's existing patents will be sufficient to completely protect its proprietary rights.

One of the major areas affecting the success of biotechnology development involves the time, cost and uncertainty surrounding regulatory approvals. Currently, Neogen products requiring regulatory approval include BotVax B, EqStim, ImmunoRegulin and Beta Star. The Company's general strategy is to select technical and proprietary products that do not require mandatory approval to be marketed. Neogen's rodenticide and disinfectant products are subject to registration in the United States and internationally.

Neogen utilizes third-party validations on many of its disposable test kits as a marketing tool to provide its customers with the proper assurances. These include validation by the AOAC International, independently administered third-party, multi-laboratory collaborative studies and approvals by the U.S. Federal Grain Inspection Service and the U.S. Food Safety Inspection Service for the use of Company products in their operations.

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PRODUCTION AND SUPPLY

Neogen manufactures its products in Lansing, Michigan; Lexington, Kentucky; Randolph, Wisconsin; and Ayr, Scotland. As of May 31, 2011, there were approximately 296 full-time employees assigned to manufacturing in these four locations, operating on one or two shifts; future demand increases could be accommodated by adding shifts. Management believes it could increase the current output of its primary product lines by more than 50% using the current space available with a minimum of additional capital equipment. To meet current and future needs in Lexington, the Company entered into a purchase agreement in May 2011 to purchase a production, warehouse and office building of 128,000 square feet; it is currently renting 12,000 square feet in this facility. It is expected that this purchase will close in August 2011.

Manufacturing of diagnostic tests for detection of natural toxins, pathogens, food allergens, spoilage organisms and pesticides, final kit assembly, quality assurance and shipping takes place in the Company's facilities in Lansing. Proprietary monoclonal and polyclonal antibodies for the Neogen's diagnostic kits are produced on a regular schedule in the Company's immunology laboratories. Other reagents are similarly prepared by the R&D employees. Manufacturing of diagnostic tests for the presence of dairy antibiotics in milk is completed in the Company's Lansing facilities. Generally, final assembly and shipment of diagnostic test kits to customers in Europe are performed in the Company's Ayr, Scotland facility.

Assembly and shipment of electronic readers and disposable single-use samplers takes place in the Company's facilities in Lansing.

Dehydrated culture media products are manufactured in a FDA monitored facility in Lansing. Products are blended following strict formulations or custom blended to customer specification and shipped directly to customers from Lansing.

Soleris instrument readers are produced and shipped to customers mostly by third party vendors.

Manufacture of pharmacological diagnostic test kits, test kits for drug residues and of animal health products takes place in the Company's facility in Lexington. In general, manufacturing operations including reagent manufacturing, quality assurance, final kit assembly and packaging are performed by Neogen personnel. Certain animal health products that are purchased finished or that are toll manufactured by third party vendors and veterinary instruments are warehoused and shipped from the Company's Lexington facility. Other veterinary instruments are produced in the Company's facilities in Lansing, and are generally then shipped to Lexington, for distribution to customers.

Manufacture of rodenticides and certain cleaners and disinfectants takes place in Randolph. Manufacturing of rodenticides consists of blending technical material (active ingredient) with bait consisting principally of various grains. Certain cleaners and disinfectants are manufactured in Randolph, while others are purchased from other manufacturers and sold, or toll manufactured by third parties.

Neogen maintains a Lansing-based USDA-approved manufacturing plant devoted to the production of the biologic products EqStim® and ImmunoRegulin®. *P. acnes* seed cultures are added to media and then subjected to several stages of further processing resulting in a product that is filled and packaged within the facility. The Company's BotVa®B vaccine is also produced in the Lansing facility utilizing Type B botulism seed cultures and a traditional fermentation process. All completed biologic products are then shipped to Neogen's Lexington facilities for inventory and distribution to customers.

With its April 2010 acquisition of GeneSeek, Inc., Neogen now maintains a commercial agricultural genetics laboratory in Lincoln, Neb. Through its laboratory services, GeneSeek empowers its customers to speed genetic improvement efforts, as well as identify economically important diseases.

Neogen purchases component parts and raw materials from more than 500 suppliers. Though many of these supplies are purchased from a single source in order to achieve the greatest volume discounts, the Company believes it has identified acceptable alternative suppliers for most of its key components and raw materials. Shipments of products are generally accomplished within a 48-hour turnaround time. As a result of this quick response time, Neogen's backlog of unshipped orders at any given time is not significant.

COMPETITION

Although competitors vary in individual markets, management knows of no competitor that is pursuing Neogen's fundamental strategy of developing and marketing a broad line of products, ranging from disposable tests and dehydrated culture media to veterinary pharmaceuticals and veterinary instruments for a large number of food safety and animal safety concerns. For each of its individual products, the Company faces intense competition from companies ranging from small businesses to divisions of large international companies. Some of these organizations have substantially greater financial resources than the Company. The Company competes primarily on the basis of ease of use, speed, accuracy, and other similar performance characteristics of its products. The breadth of the Company's product line, the effectiveness of its sales and

customer service organizations and pricing are also components in management's competitive plan.

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Future competition may become even more intense, including the development of changing technologies, which could affect the marketability and profitability of Neogen's products. The Company's competitive position also will depend on management's ability to develop proprietary products, attract and retain qualified scientific and other personnel, develop and implement production and marketing plans and obtain patent protection. Additionally, the Company must have adequate capital resources to execute its strategy.

FOOD SAFETY:

Neogen's Food Safety Division has strong distribution of its products using Company employees in North America, Europe, Mexico and Brazil, and from an active and aggressive distributor group elsewhere. With one of the largest professional sales organizations in the industry, management believes that it maintains a general competitive advantage as sales personnel are in a position to be in contact with customers and prospects more frequently than its competitors. Additionally, as an agricultural based company, Neogen has what is believed to be a unique insight into the food industry as opposed to clinically based competition.

Competition for pathogen detection products includes traditional methods and antibody and genetic based platforms. Neogen's product offerings compete across the entire spectrum of methods. Competition for natural toxins and allergen detection products include instrumentation and antibody based tests. Generally, the Company's products fall within the non-instrument category. While for these and other food safety products the Company's offerings will not always compete on all platforms in all markets, the products that are offered provide tests that can be well utilized by most customers to meet their testing needs.

Besides its strong product offerings and extensive distribution network, the Company focuses its competitive advantage in the areas of customer service and speed and ease of use of its products. Additionally, by aggressively maintaining itself as a low cost producer, Neogen believes that it can be competitive with new market entrants that may choose a low pricing strategy in an attempt to gain market share.

ANIMAL SAFETY:

Neogen's Animal Safety Division faces no one competitor across the products and markets it serves. In the racing industry market, the Company believes it holds a leading market share position. In the Life Sciences market, the Company competes against several other diagnostic and reagent companies with similar product offerings.

In the veterinary market, Neogen markets BotVax B[®], the only USDA approved vaccine for the prevention of botulism Type B in horses. The Company competes on other key products through differentiated product performance and superior customer and technical support. With some of its products, the Company provides solutions as a lower cost alternative and offers a private label option for its distributors.

Competition in the rodenticide market includes several companies of comparable size that offer products into similar market segments. The rodenticide retail market is dominated by a single brand. While the technical materials used by the competing companies are similar, Neogen uses manufacturing and bait formula techniques to better draw rodents to the product and thereby improve overall product performance.

Several companies compete for sales in the disinfectant and cleaner product segment. Neogen's products are sold through their distributor network around the world, primarily to assist in the cleaning and disinfecting of animal production facilities.

Neogen competes in the retail market by providing solutions to common retail problems – stock outs, wasted floor space, and inconsistent brand identity. The Company offers planograms and reordering systems to maximize turns and profitability for its retail customers.

Neogen added to its genomic capability through its April 2010 acquisition of GeneSeek, the leading commercial agricultural genetics laboratory in the U.S. GeneSeek employs cutting-edge technology in the area of genomics. GeneSeek is not involved in cloning or the development of transgenic animals. Instead, the results of its technology allow the acceleration of natural selection through selective breeding of traits such as disease resistance and meat quality. Competition comes mainly from service providers whose primary focus is the human and pharmaceutical industries.

GOVERNMENT REGULATION

A significant portion of the Neogen's products and revenues are affected by the regulations of various domestic and foreign government agencies, including the U.S. Department of Agriculture, the Environmental Protection Agency, and the U.S. Food and Drug Administration. Changes in these regulations could affect revenues and/or costs of production and distribution.

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Neogen's development and manufacturing processes involve the use of certain hazardous material, chemicals and compounds. Management believes that the Company's safety features for handling and disposing of such commodities comply with the standards prescribed by local, state and federal regulations. The Company's current cost to comply with these regulations is not significant; however, changes in legislation or rules could be materially adverse to its business.

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The rodenticides, disinfectants and sanitizers manufactured and distributed by Neogen Corporation are subject to Environmental Protection Agency regulations. In general, any international sale of the product must also comply with similar regulatory requirements in the country of destination. Each country has its own individual regulatory construct with specific requirements (e.g., label in the language of the importing country). To the best of our knowledge pertinent products are in compliance with the appropriate federal and foreign regulations, in the respective country such products are sold.

Dairy products used in National Conference on Interstate Milk Shipments (NCIMS) and other milk monitoring programs are regulated by the FDA. Before products requiring FDA approval can be sold in the U.S., extensive product performance data must be submitted in accordance with FDA approved protocol administered by AOAC Research Institute (AOAC RI). Following approval of a product by the FDA, the product must also be approved by NCIMS, an oversight body that includes state, federal and industry representatives. Our BetaStar® US dairy antibiotic residue testing product has been approved by the FDA, NCIMS, and AOAC RI. While some foreign countries accept AOAC RI approval as part of their regulatory approval process, many countries have their own regulatory processes.

Many of the food safety diagnostic products of allergens, spoilage organisms and mycotoxins do not require direct government approval. However, the Company has pursued AOAC approval for many of the products to enhance the marketability of products. Products for mycotoxin detection, which are used by federal inspectors, must be approved by USDA. Neogen Corporation has obtained and retained the necessary approvals to conduct its current operations.

Neogen's veterinary vaccine products and one pharmaceutical product require government approval to allow for lawful sales. The vaccine products are approved by United States Department of Agriculture, Center for Veterinary Biologics (USDA-CVB) and the pharmaceutical product is approved by the FDA. The products, and the facilities in which they manufactured, are in a position of good standing with both agencies. The Company has had no warning letters based on any review or inspection; the Company has had no recalls on any of these products; and the Company knows of no reason why its freedom to manufacture and market in the future is in any danger.

Other animal safety and food products generally do not require additional registrations or approvals. However, Neogen Corporation's regulatory staff routinely monitor amendments to current regulatory requirements to ensure compliance.

The Company's rodenticide products generally require registration with U.S. governmental agencies at federal and state levels and with foreign governments.

EMPLOYEES

As of May 31, 2011 the Company employed 654 full-time persons. None of the employees are covered by collective bargaining agreements. There have been no work stoppages or slowdowns due to labor-related problems. Management believes that its relationship with its employees is good. All employees having access to proprietary information have executed confidentiality agreements with the Company.

ITEM 1A. RISK FACTORS

An investment in our common shares involves a high degree of risk. The risks described below are not the only ones that an investor faces. Additional risks that are not yet known to us or that we currently think are immaterial could also impair our business, financial condition or results of operations. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected.

Risks Relating to Our Business

Our business strategy is dependent on successfully identifying and integrating acquisitions as well as promoting internal growth.

Our business has grown significantly over the past several years as a result of both internal growth and acquisitions of existing businesses and their products. Identifying and pursuing acquisition opportunities, integrating these acquisitions into our business and managing their growth require a significant amount of management time and skill. We cannot assure that we will be effective in identifying, integrating or managing any acquisition target in the future. Our failure to successfully integrate and manage any future acquisition may have a material adverse effect on our operating results and financial condition.

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In addition, if we continue to experience growth in our business, our growth could place a significant strain on our management, customer service, operations, sales and administrative personnel and other resources. To serve the needs of our existing and future customers, we will be required to recruit, train, motivate and manage qualified employees. We have incurred and will continue to incur significant costs to retain qualified management, sales and marketing, engineering, production, manufacturing and administrative personnel, as well as expenses for marketing and promotional activities. Our ability to manage our planned growth depends upon our success in expanding our operating, management and information and financial systems, which might significantly increase our operating expenses.

We might not be able to effectively manage our future growth, and if we fail to do so, our business, financial condition and results of operations would be adversely affected.

The development of new products entails substantial risk of failure.

We are continually developing new products for which we believe there should be significant market demand. We cannot assure that we will successfully develop commercially viable products, that the products will be developed on a timely basis to meet market demand or that the relevant market will be properly identified. If we expend substantial resources in developing an unsuccessful product, operating results could be adversely affected.

Our international operations are subject to different product standards as well as other operational risks.

In fiscal 2011, sales to customers outside of the United States accounted for 42.1% of the Company's total revenue. We expect that our international business will continue to account for a significant portion of our total revenue. Foreign regulatory bodies may establish product standards different from those in the U.S. and with which the Company's current products do not comply. Our inability to design products that comply with foreign standards could have a material adverse effect on our future growth. Other risks related to our sales to customers outside of the United States include the possible disruption in transportation, difficulties in building and managing foreign distribution, fluctuation in the value of foreign currencies, import duties and quotas and unexpected economic and political changes in foreign markets. These factors might adversely affect international sales and our overall financial performance.

The markets for our products are extremely competitive, and our competitors may be able to utilize existing resource advantages to our detriment.

The markets in which the Company competes are subject to rapid and substantial changes in technology and are characterized by extensive research and development and intense competition. Many of our competitors and potential competitors have greater financial, technical, manufacturing, marketing, research and development and management resources than we do. These competitors might be able to use their resources, reputations and ability to leverage existing customer relationships to give them a competitive advantage over us. They might also succeed in developing products that are at least as reliable and effective as our products, make additional measurements, are less costly than our products or provide alternatives to our products.

We are dependent on the agricultural marketplace, which is affected by factors beyond our control.

Our primary customers are in the agricultural and food production industries. Economic conditions affecting agricultural industries are cyclical and are dependent upon many factors outside our control, including weather conditions or changes in consumption patterns or commodity prices. An economic downturn in the agricultural marketplace could adversely affect our sales.

Our quarterly operating results are subject to significant fluctuations.

We have experienced, and may experience in the future, significant fluctuations in our quarterly operating results. The mix of products sold and the acceptance of new products, in addition to other factors, could contribute to this quarterly variability. We operate with relatively little backlog and have few long-term customer contracts. Substantially all of our product revenue in each quarter results from orders received in that quarter. In addition, our expense levels are based, in part, on expectation of future revenue levels. A shortfall in expected revenue could, therefore, result in a disproportionate decrease in our net income.

Our success is highly dependent on our ability to obtain protection for the intellectual property utilized in our products.

Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our products by establishing and maintaining intellectual property rights relating to or incorporated into our technology and products. Patent applications filed by the Company may not result in the issuance of patents or, if issued, may not be issued in a form that will be commercially advantageous to us.

Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could

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limit our ability to stop competitors from marketing similar products or limit the length of time of patent protection we may have for our products. We also cannot assure that our nondisclosure agreements, together with trade secrets and other common law rights, will provide meaningful protection for the Company's trade secrets and other proprietary information. Moreover, the laws of some foreign jurisdictions may not protect intellectual property rights to the same extent as in the United States, and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we encounter such difficulties or we are otherwise precluded from effectively protecting our intellectual property rights domestically or in foreign jurisdictions, we may incur substantial costs and our business, including our business prospects, could be substantially harmed.

From time to time, the Company has received notices alleging that the Company's products infringe third party proprietary rights. Whether the manufacture, sale or use of current products, or whether any products under development would, upon commercialization, infringe any patent claim will not be known with certainty unless and until a court interprets the patent claim in the context of litigation. If an infringement allegation is made against us, we may seek to invalidate the asserted patent claim and/or to allege non-infringement of the asserted patent claim. In order for us to invalidate a U.S. patent claim, we would need to rebut the presumption of validity afforded to issue patents in the United States with clear and convincing evidence of invalidity, which is a high burden of proof. The outcome of infringement litigation is subject to substantial uncertainties, and also the testimony of experts as to technical facts upon which experts may reasonably disagree. Our defense of an infringement litigation lawsuit could result in significant expense. Regardless of the outcome, infringement litigation could significantly disrupt our marketing, development and commercialization efforts, divert our management's attention and consume our financial resources. In the event that we are found to infringe any valid claim in a patent held by a third party, we may, among other things, be required to:

Pay damages, including up to treble damages and the other party's attorneys' fees, which may be substantial;

Cease the development, manufacture, importation, use and sale of products that infringe the patent rights of others, through a court-imposed sanction called an injunction;

Expend significant resources to redesign our technology so that it does not infringe others' patent rights, or to develop or acquire non-infringing intellectual property, which may not be possible;

Discontinue manufacturing or other processes incorporating infringing technology; and/or

Obtain licenses to the infringed intellectual property, which may not be available to us on acceptable terms, or at all.

Any development or acquisition of non-infringing products or technology or licenses could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results. If we are required to, but cannot, obtain a license to valid patent rights held by a third party, we would likely be prevented from commercializing the relevant product, or from further manufacture, sale or use of the relevant product.

We are subject to substantial governmental regulation.

A portion of our products are regulated by various domestic and foreign government agencies, including the U.S. Department of Agriculture and the U.S. Food and Drug Administration. Although less than 10% of our revenues are currently derived from products requiring government approval prior to sale, a significant portion of our revenues is derived from products used to monitor and detect the presence of residues that are regulated by various government agencies. Furthermore, the Company's growth may be adversely affected by the implementation of new regulations.

We are dependent on key employees.

Our success depends, in large part, on our chairman, president and other members of our management team. Our loss of any of these key employees could have a material adverse effect on the Company. We maintain certain incentive plans for key employees, and most of these employees have been with the Company in excess of five years. However, we have not executed long-term employment agreements with any of these employees and do not expect to do so in the foreseeable future. Our success also depends, significantly, on our ability to continue to attract

such personnel. We cannot assure that we will be able to retain our existing personnel or attract additional qualified persons when required and on acceptable terms.

Our business may be subject to product liability claims.

The manufacturing and distribution of the Company's products involve an inherent risk of product liability claims being asserted against us. Regardless of whether we are ultimately determined to be liable or our products are determined to be defective, we might incur significant legal expenses not covered by insurance. In addition, product liability litigation could damage our reputation and impair our ability to market our products, regardless of the outcome. Litigation could also impair our ability to retain product liability

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insurance or make our insurance more expensive. Although the Company currently maintains liability insurance, we cannot assure that we will be able to continue to obtain such insurance on acceptable terms, or that such insurance will provide adequate coverage against all potential claims. If we are subject to an uninsured or inadequately insured product liability claim, our business, financial condition and results of operations could be adversely affected.

Market prices for securities of technology companies are highly volatile.

The market prices for securities of technology companies have been volatile in the past and could continue to be volatile in the future. Fluctuations in our financial performance from period to period could have a significant impact on the market price of our common shares.

Operating results could be negatively impacted by economic, political or other developments in countries in which we do business.

Future operating results could be negatively impacted by unstable economic, political and social conditions, including but not limited to fluctuations in foreign currency exchange rates, political instability, or changes in the interpretation or creation of laws and regulations or administrative actions in each of the countries where the Company conducts business, including the United States. Additionally, the Company operates in multiple income tax jurisdictions and must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Income tax audits associated with the allocation of income and other complex issues may result in significant income tax adjustments that could negatively impact the Company's future operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS NONE

ITEM 2. PROPERTIES

Neogen owns several separate buildings located in Lansing, Michigan. A 26,000 square foot building located at 620 Leshar Place includes corporate administrative offices, food safety sales and marketing offices and research facilities. A 12,000 square foot building located at 600 Leshar Place is used for corporate accounting and human resources. Three adjacent buildings, located at 703, 717 and 720 Shiawassee, total 40,000 square feet and are used for manufacture and warehousing of food safety products. Two buildings on Hosmer Street with a combined total of 49,000 square feet, are used for manufacturing and warehousing of dehydrated culture media and veterinary instruments. A 55,000 square foot building at 1614 East Kalamazoo Street is used for corporate administration, research and production of vaccines; 10,000 square feet of the East Kalamazoo Street building is held for expansion.

Animal Safety sales and marketing, diagnostic test kit manufacturing, warehousing and distribution of all other Animal Safety products takes place from an 82,000 square foot Company owned facility at 944 Nandino Drive in Lexington, Kentucky.

Animal Safety pharmaceutical, supplement and topical product manufacturing takes place in 16,000 square feet of leased space at 2040 Creative Drive in Lexington, Kentucky. The lease covering the space is a non-cancelable operating lease through December 31, 2011 currently requiring monthly payments of \$6,000.

Animal Safety researchers occupy 7,000 square feet of space in St. Joseph, Michigan. Originally occupied by International Diagnostics Systems Inc., this space now houses research and development labs at a monthly cost of \$6,500. The lease extends through May 2013.

Animal Safety occupies 12,000 feet of space in an office and warehouse facility at 1847 Mercer Road in Lexington, Kentucky, housing additional warehouse space for the Animal Safety product lines. The lease for the space is a month-to-month lease requiring a monthly payment of \$4,450. The Company entered into an agreement in May 2011 to purchase the entire Mercer Road facility for \$4,950,000; this transaction is expected to close in August 2011. This purchase will provide the Company an additional 116,000 square feet of office, production and warehouse space.

Neogen Europe Ltd. Operations take place in 38,000 square feet in Auchencruive, Ayrshire, Scotland. The company purchased the facilities in 2010. The facility is adjacent to the campus of the Scottish Agricultural College at Ayr.

Rodenticide and disinfectant manufacturing and warehousing is conducted in 80,000 square feet of Company owned buildings at 110 Hopkins Drive in Randolph, Wisconsin. Additionally the Company leases 9,000 square feet of warehouse space in Cambria, Wisconsin for \$1,600 per month and 3,000 square foot space in Fox Lake, Wisconsin for \$800 per month on a month-to-month basis. The company is currently building a

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25,000 square foot warehouse facility on the existing Randolph, Wisconsin property to facilitate further expansion.

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The Company's GeneSeek Inc. subsidiary, which was acquired in fiscal year 2010, operates in 13,569 square feet of leased space in Lincoln, Nebraska. The lease runs through May 31, 2012 at a monthly rate of \$18,500.

These properties are in good condition, well-maintained, and generally suitable and adequate to carry on the Company's business.

ITEM 3. LEGAL PROCEEDINGS

Neogen is subject to certain legal 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****MARKET INFORMATION:**

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

| | HIGH | LOW |
|--------------------------------|-------------|------------|
| YEAR ENDED MAY 31, 2011 | | |
| First Quarter | \$ 29.91 | \$ 25.06 |
| Second Quarter | \$ 37.58 | \$ 30.73 |
| Third Quarter | \$ 42.26 | \$ 35.63 |
| Fourth Quarter | \$ 44.84 | \$ 36.80 |
| YEAR ENDED MAY 31, 2010 | | |
| First Quarter | \$ 20.23 | \$ 14.56 |
| Second Quarter | \$ 22.79 | \$ 18.96 |
| Third Quarter | \$ 24.70 | \$ 20.51 |
| Fourth Quarter | \$ 27.39 | \$ 23.50 |

HOLDERS:

As of July 29, 2011, there were approximately 369 stockholders of record of Common Stock that management believes represents a total of approximately 5,420 beneficial holders.

DIVIDENDS:

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

The following graph compares the cumulative 5-year total return to shareholders on Neogen Corporation's common stock relative to the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph assumes that the value of the investment in the company's common stock and in each of the indexes (including reinvestment of dividends) was \$100 on 5/31/2006 and tracks it through 5/31/2011.

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| | 5/06 | 5/07 | 5/08 | 5/09 | 5/10 | 5/11 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Neogen Corporation | \$ 100.00 | \$ 134.22 | \$ 193.68 | \$ 162.06 | \$ 283.57 | \$ 494.56 |
| NASDAQ Composite | 100.00 | 121.55 | 118.74 | 83.47 | 106.84 | 135.48 |
| NASDAQ Medical Equipment | 100.00 | 113.35 | 120.40 | 76.54 | 108.99 | 133.83 |

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

Issuer Purchases of Equity Securities

In December 2008 the Board of Directors authorized management to repurchase up to a total of 750,000 shares of its common stock in open market transactions. The Company made no purchases of common stock in fiscal year 2011.

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The following tables set forth selected consolidated financial data of Neogen for each of the five fiscal years ended May 31, 2011. The selected consolidated financial data presented below have been derived from the Company's consolidated financial statements. This financial data should be read in conjunction with the consolidated financial statements, related notes and other financial information appearing elsewhere in this Form 10-K.

| (In thousands, except per share data) | Years Ended May 31 | | | | |
|---|--------------------|-----------|----------------|-----------|-----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Income Statement Data: | | | | | |
| Food Safety Sales | \$ 47,165 | \$ 57,664 | \$ 61,025 | \$ 76,454 | \$ 85,514 |
| Animal Safety Sales | 38,973 | 44,754 | 57,696 | 64,055 | 87,169 |
| Net Sales | 86,138 | 102,418 | 118,721 | 140,509 | 172,683 |
| Cost of Goods Sold | 41,575 | 49,185 | 59,288 | 67,534 | 84,891 |
| Sales and Marketing | 18,463 | 20,648 | 22,906 | 26,350 | 30,020 |
| General and Administrative | 9,301 | 10,927 | 11,484 | 13,488 | 15,112 |
| Research and Development | 3,295 | 3,639 | 4,555 | 6,258 | 6,825 |
| Operating Income | 13,504 | 18,019 | 20,488 | 26,879 | 35,835 |
| Other Income (Expense) | 371 | 479 | 1,136 | 442 | (596) |
| Income Before Income Taxes | 13,875 | 18,498 | 21,624 | 27,321 | 35,239 |
| Provision for Income Taxes | 4,750 | 6,400 | 7,750 | 9,800 | 12,400 |
| Net Income | \$ 9,125 | \$ 12,098 | \$ 13,874 | \$ 17,521 | \$ 22,839 |
| Net Income per Share (basic)(1) | \$.44 | \$.56 | \$.63 | \$.78 | \$.99 |
| Net Income per Share (diluted)(1) | \$.43 | \$.54 | \$.61 | \$.76 | \$.96 |
| Common Shares Outstanding (diluted)(1) | 21,243 | 22,499 | 22,587 | 23,091 | 23,791 |
| (In thousands) | 2007 | 2008 | May 31 2009 | 2010 | 2011 |
| Balance Sheet Data: | | | | | |
| Cash and Cash equivalents and Marketable Securities | \$ 13,424 | \$ 14,270 | \$ 13,842 | \$ 22,806 | \$ 56,083 |
| Working Capital(2) | 41,060 | 54,495 | 62,520 | 69,987 | 104,705 |
| Total Assets | 105,284 | 126,357 | 142,176 | 180,233 | 219,662 |
| Long-Term Debt | | | | | |
| Total Equity | 91,945 | 111,248 | 128,679 | 153,053 | 188,978 |

(1) On September 4, 2007, and on December 15, 2009 the Company paid 3-for-2 stock splits affected in the form of a dividend of its common stock. All share and per share amounts have been adjusted to reflect the stock splits as if they had taken place at the beginning of the period presented.

(2) Defined as current assets less current liabilities.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, seeks, estimates, and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation's results to differ materially from those indicated by such forward-looking statements, including those detailed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Company's financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including those related to receivable allowances, inventories and intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

Revenue from sales of products and services is recognized when a purchase order has been received, the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent customer payment is received before all recognition criteria has been met, these revenues are initially deferred and later recognized in the period that all recognition criteria has been met. 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. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is written off against the reserve for uncollectible accounts.

Inventory

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

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Goodwill and Other Intangible Assets

Management assesses goodwill and other non-amortizable intangible assets for possible impairment at least annually. Assessments indicated no impairment of these assets existed in each of 2011, 2010 and 2009. 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 that time. Factors that could cause an impairment review to take place would include:

Significant under performance 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 definite-lived 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 its fair value using undiscounted future cash flows of the reporting unit. If the carrying amounts of these assets are greater than the amount of undiscounted future cash flows, such assets are reduced to their estimated fair value.

Equity Compensation Plans

ASC 718 Compensation Stock Compensation 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 5 to the consolidated financial statements. ASC 718 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.

To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied by the Company is able to handle some of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values 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.

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RESULTS OF OPERATIONS

Executive Overview

Revenue of \$172,683,000 in fiscal 2011 represented a 23% increase compared to revenue of \$140,509,000 in fiscal 2010. Net income for 2011 was \$22,839,000, or \$0.96 per fully diluted share, compared to \$17,521,000, or \$0.76 per fully diluted share, in fiscal 2010. Revenue, operating income and net income for the 2011 fiscal year each established new all-time highs. These results were achieved in a difficult business environment, both domestically and internationally. The Company's percentage of sales from customers outside the United States grew from 40% of total revenues in 2010 to 42% in 2011. Cash flow from operations for 2011 improved to \$29 million, primarily a result of the profitability of the Company and its ability, through the use of systems and procedures, to control its use of working capital.

Although there were no acquisitions during the fiscal year, the two acquisitions from the prior year performed strongly in helping to increase revenues in 2011. Following a strong year in which allergen revenues increased by 50%, the BioKits acquisition pushed the food allergen product line to a second outstanding growth year, increasing sales by more than 44% in 2011. The GeneSeek acquisition, made late in the 2010 fiscal year, made a positive impact by adding revenues of over \$18 million in 2011 to the Company. Adding to the strong performance, Neogen Europe recorded a 27% revenue gain in 2011, following a 24% gain in 2010.

Consolidated gross margins decreased from 51.9% in 2010 to 50.8% in 2011, due primarily to the impact of Geneseek, which under its business model, operates at lower historical gross margins than the Company's other product lines, and to a lesser extent, product mix. Management continued a strong cost containment program begun in 2010. Operating expenses as a percentage of revenues declined from 32.8% in 2010 to 30.1% in 2011 with increased utilization of fixed costs.

The Company's financial performance continued to gain increased notice in the investment community in 2011. It continued its inclusion in the Russell 2000 Index and the Standard & Poor's 600 Healthcare Index. Neogen was also named to *Fortune's* Fastest Growing 100 list and was again named to *Forbes Magazine's* annual list of The 200 Best Small Companies in America, for the sixth consecutive year and the ninth time in the last 11 years.

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| <i>(dollars in thousands)</i> | Twelve Months Ended | | | | |
|---|---------------------|-------------------------|--------------|-------------------------|--------------|
| | May 31, 2011 | Increase/ (Decrease) | May 31, 2010 | Increase/ (Decrease) | May 31, 2009 |
| Food Safety: | | | | | |
| Natural Toxins, Allergens & Drug Residues | \$ 43,108 | 10% | \$ 39,338 | 28% | \$ 30,667 |
| Bacterial & General Sanitation | 22,268 | 14% | 19,545 | 5% | 18,539 |
| Dehydrated Culture Media & Other | 20,138 | 15% | 17,571 | 49% | 11,819 |
| | 85,514 | 12% | 76,454 | 25% | 61,025 |
| Animal Safety: | | | | | |
| Life Sciences & Other | 7,902 | 11% | 7,126 | 24% | 5,730 |
| Vaccine | 2,392 | 3% | 2,329 | 6% | 2,207 |
| Rodenticides & Disinfectants | 28,226 | 17% | 24,160 | 18% | 20,491 |
| Veterinary Instruments & Other | 30,629 | 7% | 28,568 | | |