

NEOGEN CORP
Form 10-Q
January 09, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2007

or

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

For the transition period from _____ to _____

Commission file number 0-17988

Neogen Corporation

(Exact name of registrant as specified in its charter)

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

620 Leshar Place
Lansing, Michigan 48912

38-2367843
*(IRS Employer
Identification Number)*

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(Address of principal executive offices, including zip code)

(517) 372-9200

(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

As of January 1, 2008, there were 14,345,000 shares of Common Stock outstanding.

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NEOGEN CORPORATION AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Interim Consolidated Financial Statements (Unaudited)****NEOGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	November 30, 2007	May 31, 2007
	<i>(In thousands, except share and per share amounts)</i>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,415	\$ 13,424
Accounts receivable, less allowance of \$525 and \$500	19,357	14,914
Inventories	23,142	19,116
Deferred income taxes	787	787
Prepaid expenses and other current assets	2,923	2,857
TOTAL CURRENT ASSETS	56,624	51,098
NET PROPERTY AND EQUIPMENT	16,501	16,402
OTHER ASSETS		
Goodwill	28,869	24,448
Other non-amortizable intangible assets	3,181	3,181
Customer based intangibles, net of accumulated amortization of \$1,485 and \$1,215	5,414	6,182
Other non-current assets, net of accumulated amortization of \$1,284 and \$1,290	4,339	3,973
	\$ 114,928	\$ 105,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,614	\$ 4,507
Accrued compensation	1,507	1,737
Income taxes	1,787	1,377
Other accruals	2,266	2,417
TOTAL CURRENT LIABILITIES	10,174	10,038
DEFERRED INCOME TAXES	1,319	1,441
OTHER LONG-TERM LIABILITIES	1,761	1,860
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, 14,337,000 shares issued and outstanding at November 30, 2007; 14,020,000 shares issued and outstanding at May 31, 2007	2,293	2,244
Additional paid-in capital	54,973	51,698
Accumulated other comprehensive income	526	386
Retained earnings	43,882	37,617
TOTAL STOCKHOLDERS' EQUITY	101,674	91,945

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\$ 114,928 \$ 105,284

See notes to interim unaudited consolidated financial statements

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	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
	<i>(In thousands, except per share amounts)</i>			
Net sales	\$ 27,210	\$ 22,189	\$ 50,118	\$ 42,409
Cost of goods sold	13,039	10,480	23,650	20,380
GROSS MARGIN	14,171	11,709	26,468	22,029
OPERATING EXPENSES				
Sales and marketing	5,456	4,665	10,134	8,905
General and administrative	2,862	2,333	5,192	4,137
Research and development	1,055	1,015	1,797	1,713
	9,373	8,013	17,123	14,755
OPERATING INCOME	4,798	3,696	9,345	7,274
OTHER INCOME (EXPENSE)				
Interest income	100	63	270	120
Interest expense				(11)
Other	206	(58)	200	(50)
	306	5	470	59
INCOME BEFORE INCOME TAXES	5,104	3,701	9,815	7,333
INCOME TAXES	1,850	1,275	3,550	2,501
NET INCOME	\$ 3,254	\$ 2,426	\$ 6,265	\$ 4,832
NET INCOME PER SHARE				
Basic	\$.23	\$.18	\$.44	\$.35
Diluted	\$.22	\$.17	\$.42	\$.34

See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

	Common Stock		Additional		Retained Earnings	Total
	Shares(2)	Amount	Paid-in Capital	Other(1)		
	<i>(In thousands)</i>					
Balance, June 1, 2007	14,020,000	\$ 2,244	\$ 51,698	\$ 386	\$ 37,617	\$ 91,945
Issuance of shares common stock under Equity Compensation Plans, including \$327,000 of excess income tax benefit	309,000	48	3,180			3,228
Issuance of Shares under Employee Stock Purchase Plan	8,000	1	95			96
Comprehensive income:						
Net income for the six months ended November 30, 2007					6,265	6,265
Foreign currency translation adjustments				140		140
Total comprehensive income (\$5,158,000 in the six months ended November 30, 2006)						6,405
Balance, November 30, 2007	14,337,000	\$ 2,293	\$ 54,973	\$ 526	\$ 43,882	\$ 101,674

(1) Other represents accumulated other comprehensive income.

(2) Restated to reflect 3-for-2 stock split

See notes to interim unaudited consolidated financial statements

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

	Six Months Ended November 30, 2007 2006 (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,265	\$ 4,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,639	1,558
Deferred income taxes	(122)	202
Share based compensation	970	596
Income tax benefit from stock plan transactions	(327)	(257)
Other	140	326
Changes in operating assets and liabilities:		
Accounts receivable	(3,842)	(2,397)
Inventories	(2,176)	(699)
Prepaid expenses and other current assets	(92)	(888)
Accounts payable and accruals	(196)	(348)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,259	2,925
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(1,032)	(2,231)
Payments for business acquisition	(6,678)	(168)
NET CASH USED IN INVESTING ACTIVITIES	(7,710)	(2,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit		(9,955)
Reductions of other long-term liabilities	(99)	(51)
Net proceeds from issuance of common stock	2,214	14,195
Excess income tax benefit from the exercise of stock options	327	257
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,442	4,446
INCREASE (DECREASE) IN CASH	(3,009)	4,972
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,424	1,959
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 10,415	\$ 6,931

See notes to interim unaudited consolidated financial statements

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three month and six month periods ended November 30, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2008. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2007 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, 2007.

On July 26, 2007, Board of Directors declared a 3 for 2 stock split payable on August 17, 2007. Equity accounts and per share amounts have been adjusted to reflect the split as of the beginning of the periods presented.

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 November 30, 2007. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts.

2. INVENTORIES

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

	November 30, 2007	May 31, 2007
	<i>(In thousands)</i>	
Raw materials	\$ 10,418	\$ 7,884
Work-in-process	586	390
Finished goods	12,138	10,842
	\$ 23,142	\$ 19,116

3. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
	<i>(In thousands except per share amounts)</i>			
Numerator for basic and diluted net income per share:				
Net income	\$ 3,254	\$ 2,426	\$ 6,265	\$ 4,832
Denominator:				
Denominator for basic net income per share-weighted average shares	14,267	13,811	14,253	13,703
Effect of dilutive stock options and warrants	579	318	563	336

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Denominator for diluted net income per share	14,846	14,129	14,816	14,039
Net income per share:				
Basic	\$.23	\$.18	\$.44	\$.35
Diluted	\$.22	\$.17	\$.42	\$.34

Table of Contents**4. STOCK REPURCHASE**

The Company's Board of Directors has authorized the purchase of up to 1,250,000 shares of the Company's Common Stock. As of November 30, 2007, the Company has cumulatively purchased 893,000 shares in negotiated and open market transactions. No shares were purchased in the first six months of fiscal year 2008. Shares purchased under this buy-back program were retired.

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 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 for the three months ended November 30, 2007 and 2006 follows:

	Food Safety	Animal Safety	and Eliminations (1)	Total
	<i>(In thousands)</i>			
Fiscal 2008				
Net sales to external customers	\$ 14,474	\$ 12,736	\$	\$ 27,210
Operating income (reduction)	3,492	1,625	(319)	4,798
Total assets	\$ 57,934	\$ 47,112	\$ 9,882	\$ 114,928
Fiscal 2007				
Net sales to external customers	\$ 11,741	\$ 10,448	\$	\$ 22,189
Operating income (reduction)	2,362	1,670	(336)	3,696
Total assets	\$ 54,008	\$ 39,165	\$ 4,914	\$ 98,087

(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.

Segment information for the six months ended November 30, 2007 and 2006 follows:

	Food Safety	Animal Safety	and Eliminations (1)	Total
	<i>(In thousands)</i>			
Fiscal 2008				
Net sales to external customers	\$ 28,232	\$ 21,886	\$	\$ 50,118
Operating income (reduction)	7,424	2,476	(555)	9,345
Fiscal 2007				
Net sales to external customers	\$ 23,082	\$ 19,327	\$	\$ 42,409
Operating income (reduction)	4,964	2,816	(506)	7,274

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- (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.

Table of Contents**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 six months ended November 30, 2007 follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at June 1, 2007	1,511,736	\$ 11.10
Granted	389,756	20.54
Exercised	300,537	7.93
Expired and cancelled	17,476	13.78
Options outstanding at November 30, 2007	1,583,479	13.99
Exercisable at November 30, 2007	649,767	11.10

Options outstanding at November 30, 2007 had a weighted-average remaining contractual term of 4.0 years. At November 30, 2007, the aggregate intrinsic values of options outstanding and options exercisable were \$19,819,000 and \$10,012,000, respectively. The aggregate intrinsic value of options exercised during the six month periods ended November 30, 2007 and 2006 was \$4,232,000 and \$4,722,000, respectively. The 1997 Stock Option Plan expired August 14, 2007. On October 11, 2007 the shareholders passed a resolution for the adoption of the 2007 Stock Option Plan. The provisions of the new plan are substantially the same as the expired plan. Exercise prices for options outstanding as of November 30, 2007 ranged from \$3.33 to \$25.07. At November 30, 2007 there was \$3,195,000 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 six months ended November 30, 2008 and 2007 the Company recorded \$970,000 and \$596,000 compensation expense related to its share-based awards.

The grant date fair value of options granted during the six months ended November 30, 2007 using the Black-Scholes option pricing model was \$6.91 and was estimated using the following weighted-average assumptions:

Risk-free interest rate	4.55%
Expected dividend yield	0%
Expected stock price volatility	34.18%
Expected option life	4 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 issued 80,813 warrants that are exercisable for common stock. The warrants have lives of 5 years and are 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

Subsequent to the end of the company's second fiscal quarter, SFAS No. 141 Business Combinations (revised 2007) (SFAS 141(R)) was issued. The revision is intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. (SFAS 160) was also issued. SFAS No. 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 Company is required to adopt the provisions of both SFAS 141 (R) and SFAS 160 simultaneously at the beginning of fiscal 2010. Earlier adoption is prohibited. The Company is currently evaluating the provisions of these pronouncements, however it expects the potential impact on its consolidated financial statements will be minimal.

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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 preliminary allocation of the purchase price consisted of \$600,000 in accounts receivables, \$1,775,000 in inventory, \$55,000 in fixed assets, \$4,350,000 in goodwill and other intangible assets and \$180,000 in assumed liabilities. The acquisition has been integrated into the Lexington, Kentucky operations and is expected to be a strong synergistic fit with the Company's Animal Safety product line.

10. LONG TERM DEBT

The Company maintains a financing agreement with a bank (no amounts drawn at November 30, 2007 or May 31, 2007) providing for an unsecured revolving line of credit of \$10,000,000. The interest rate is LIBOR plus 95 basis points (rate under terms of the agreement was 5.70% at November 30, 2007). Financial covenants include maintaining specified funded debt to EBITDA and debt service ratios as well as specified levels of tangible net worth, all of which are complied with at November 30, 2007.

11. SUBSEQUENT EVENT

On December 3, 2007, Neogen Corporation purchased the assets of Winnipeg, Manitoba based Rivard Instruments Inc. Assets acquired consisted of inventory, equipment and intangibles. The acquisition will be integrated into the Lexington, Kentucky operations and is expected to be a strong synergistic fit with the Company's Animal Safety product line.

ITEM 2. 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 does not provide forecasts of future performance. While management is optimistic about the Company's long-term prospects, historical financial information may not be indicative of future financial performance.

Safe Harbor and Forward-Looking Statements

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

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

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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 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 conditions 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 2007 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

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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.

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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 and was adopted by the Company on June 1, 2006 utilizing the modified retrospective transition method. The effect of applying SFAS 123 (R) and 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.

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.

RESULTS OF OPERATIONS

Executive Overview

Neogen Corporation revenues increased by 23% in the second quarter of fiscal 2008 to \$27.2 million and by 18% to \$50.1 million for the six-month period ended November 30, 2007. Food Safety sales increased by 23% and 22% in the quarter and in the six month periods, with strong contributions from each of three product groups. Animal Safety sales increased by 22% and 14% in the quarter and in the six-month period ended November 30, 2007, with strong contributions in the sales of Veterinary Instruments & Other products and the acquisition of Kane Enterprises. Gross margins decreased from 52.8% in the prior year to 52.1% in the second quarter of FY-08 but increased on a year-to-date basis from 51.9% to 52.8%. Operating margins increased in the quarter and the six-month period from 16.7% to 17.6% and from 17.2% to 18.6% respectively. These gains were the result of product mix, economies of scale and the results of continuing cost control efforts.

Table of Contents**Three and six Months Ended November 30, 2007 Compared to Three and six Months Ended November 30, 2006**

	Three Months Ended November 30			
	2007	2006	Increase (Decrease)	%
	(Dollars in thousands)			
Food Safety				
Natural Toxins, Allergens & Drug Residues	\$ 7,472	\$ 6,400	\$ 1,072	17
Bacteria & General Sanitation	3,994	3,223	771	24
Dehydrated Culture Media & Other	3,008	2,118	890	42
	14,474	11,741	2,733	23
Animal Safety				
Life Sciences & Equine Vaccines	1,864	2,076	(212)	(10)
Rodenticides & Disinfectants	3,414	3,560	(146)	(4)
Veterinary Instruments & Other	7,458	4,812	2,646	55
	12,736	10,448	2,288	22
Total Sales	\$ 27,210	\$ 22,189	\$ 5,021	23

	Six Months Ended November 30			
	2007	2006	Increase (Decrease)	%
	(Dollars in thousands)			
Food Safety				
Natural Toxins, Allergens & Drug Residues	\$ 14,574	\$ 12,928	\$ 1,646	13
Bacteria & General Sanitation	8,259	6,180	2,079	34
Dehydrated Culture Media & Other	5,399	4,076	1,323	32
	28,232	23,184	5,048	22
Animal Safety				
Life Sciences & Equine Vaccines	3,667	3,656	11	
Rodenticides & Disinfectants	6,234	6,480	(246)	(4)
Veterinary Instruments & Other	11,985	9,089	2,896	32
	21,886	19,225	2,661	14
Total Sales	\$ 50,118	\$ 42,409	\$ 7,709	18

In the Food Safety Segment, Natural Toxin, Allergen & Drug Residue product sales increased 17% in the second quarter and 13% on a year-to-date basis. Bacteria & General Sanitation product sales increased 24% in the quarter and 34% year to date. Dehydrated Culture Media & Other product sales increased 42% and 32% in the three and six month periods respectively. Sales increases were broad based with effective selling programs in place for a number of the markets Neogen serves. In addition, Neogen's wide product offerings continue to be well accepted in the marketplace and the Company is benefiting from accelerating worldwide concerns about safety of food. Specifically ATP products increased 22% in the quarter and 34% year to date and the Soleris products were up 45% for the quarter and 81% year to date. Revenues for both products included strong revenues from reader sales that should bode well for future sales of disposable diagnostic tests used in conjunction with the readers. Tests for the detection of antibiotics in milk were up 30% in the quarters. Neogen Europe led Food Safety growth with sales up more than 40% for the quarter. Sales of mycotoxin test kits, particularly for DON, and sales of dehydrated culture media have been leading Neogen Europe's strong revenue growth.

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In the Animal Safety Segment, Life Sciences & Vaccine product sales declined 10% in the three-month period but remained unchanged in the six-month period based upon timing of vaccine orders in the current and prior year. Rodenticide & Disinfectant sales decreased by 4% in both the quarter and on a year-to-date basis with mild weather throughout much of the United States which management believes have negatively impacted rodenticide sales. Veterinary Instrument and Other product sales increased by 55% in the quarter and by 32% in the first six months of the fiscal year assisted in the second quarter by revenues from Kane. Key growth areas within Veterinary Instruments include vitamin injectibles, small animal supplements, and wound care products. Exclusive of the sales acquired in the Kane acquisition sales of Animal Safety, products increased 6% over the prior year in the second quarter and 4% in the six-month fiscal period.

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Gross margins decreased from 52.8% in the prior year to 52.1% in the second quarter of FY-08, primarily due to the increased mix of Kane sales, but increased on a year-to-date basis from 51.9% to 52.8% principally on product mix. Operating margins increased in the quarter and the six-month period from 16.7% to 17.6% and from 17.2% to 18.6% respectively. These gains were the result of product mix, economies of scale and the results of continuing cost control efforts. Sales and Marketing as expressed as a percentage of revenues decreased in the second fiscal quarter from 21.0% to 20.1% and decreased on a year to date basis from 21.0% to 20.2%. The decrease in selling cost as a percent of revenue reflects the increased sales without a commensurate increase in distribution costs. General and administrative expense remained at 10.5% of revenues in the quarter but increased from 9.8% to 10.4% of revenues for the six-month period due to staffing, stock option expense and legal fees. Research expense, while growing in absolute dollars by \$40,000 for the quarter declined as a percentage of revenues from 4.6% to 3.9% and from 4.0% in FY-07 to 3.6% in FY-08 on a year to date basis.

Financial Condition and Liquidity

Proceeds of \$2,214,000 were realized with the exercise of 309,000 stock options and issuance of 8,000 shares under the Employee Stock Purchase Plan during the six months ended November 30, 2007. Despite increases in accounts receivable and inventories from the Kane Acquisition and required to support organic sale increases, \$2,259,000 cash was generated from operations. Inflation and changing prices do not generally have a material effect on operations. Cash used in the acquisition of Kane Enterprises Inc. amounted to \$6,700,000.

Management believes that the Company's existing cash balances at November 30, 2007, 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.

New Accounting Pronouncements

Subsequent to the end of the company's second fiscal quarter, SFAS No. 141 Business Combinations (revised 2007) (SFAS 141(R)) was issued. The revision is intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. (SFAS 160) was also issued. SFAS No. 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.

The Company is required to adopt the provisions of both SFAS 141 (R) and SFAS 160 simultaneously at the beginning of fiscal 2010. Earlier adoption is prohibited. The Company is currently evaluating the provisions of these pronouncements, however it expects the potential impact on its consolidated financial statements will be minimal.

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.

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

ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of November 30, 2007 was carried out under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer and the Vice President and 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 nine months ended November 30, 2007 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to certain legal and other proceedings in the normal course of business. In the opinion of management, the outcome of the legal matters 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

The annual meeting of the Company was held on October 11, 2007. The matters voted on and the results follow:

Election of Directors	For
Robert M. Book	12,356,740
Jack C. Parnell	12,418,386
Clayton K Yeutter, Ph.D.	12,594,739

Approval of an increase in authorized common shares; 12,462,142 for;

Approval of the 2007 Stock Option Plan; 8,352,474 for; and

Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2008; 12,616,110 for.

Items 1A, 2, 3, and 5 are not applicable and have been omitted.

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 13 a 14 (a).
- 32. Certification pursuant to 18 U.S.C. sections 1350.

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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.

Dated: January 9, 2008

Dated: January 9, 2008

NEOGEN CORPORATION
(Registrant)

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

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