NEOGEN CORP
Form 10-Q
December 28, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

*(Mark One)*

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

**For the quarterly period ended November 30, 2012.**

**or**

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

**For the transition period from to**

**Commission file number 0-17988**

# Neogen Corporation

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

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

**620 Lesher Place**

**Lansing, Michigan 48912**

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

**(517) 372-9200**

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

**N/A**

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

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

Indicate by check mark whether the registrant 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 x NO ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller Reporting Company ¨ |

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

As of December 1, 2012, there were 23,862,010 shares of Common Stock outstanding.

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**NEOGEN CORPORATION AND SUBSIDIARIES**

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**PART I FINANCIAL INFORMATION**

**Item 1. Interim Consolidated Financial Statements**

**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | November 30, 2012 (Unaudited) | May 31, 2012 (Audited) |
|---|---|---|
| | *(In thousands, except share and per share amounts)* | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 41,309 | $ 49,045 |
| Marketable securities (at fair value, which approximates cost) | 29,529 | 19,600 |
| Accounts receivable, less allowance of $850 and $800 | 37,590 | 35,652 |
| Inventories | 38,375 | 34,992 |
| Deferred income taxes | 1,328 | 1,328 |
| Prepaid expenses and other current assets | 4,443 | 3,324 |
| TOTAL CURRENT ASSETS | 152,574 | 143,941 |
| NET PROPERTY AND EQUIPMENT | 31,264 | 29,933 |
| OTHER ASSETS | | |
| Goodwill | 60,037 | 53,052 |
| Other non-amortizable intangible assets | 5,275 | 5,270 |
| Customer based intangibles, net of accumulated amortization of $7,955 and $7,111 | 11,982 | 10,826 |
| Other non-current assets, net of accumulated amortization of $4,081 and $3,578 | 8,539 | 8,578 |
| | 85,833 | 77,726 |
| TOTAL ASSETS | $ 269,671 | $ 251,600 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 8,420 | $ 10,760 |
| Accrued compensation | 1,992 | 2,756 |
| Income taxes | 2,597 | 809 |
| Other accruals | 5,306 | 5,654 |
| TOTAL CURRENT LIABILITIES | 18,315 | 19,979 |
| DEFERRED INCOME TAXES | 10,721 | 9,974 |
| OTHER LONG-TERM LIABILITIES | 2,924 | 2,593 |
| | 13,645 | 12,567 |
| TOTAL LIABILITIES | 31,960 | 32,546 |
| EQUITY | | |
| Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding | 0 | 0 |
| Common stock, $.16 par value, 60,000,000 shares authorized, 23,862,010 and 23,619,761 shares issued and outstanding at November 30, 2012 and May 31, 2012, respectively | 3,818 | 3,779 |
| Additional paid-in capital | 94,277 | 89,592 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (749) | (1,227) |
| Retained earnings | 140,202 | 126,695 |
| Total Neogen Corporation Stockholders Equity | 237,548 | 218,839 |
| Noncontrolling interest | 163 | 215 |
| TOTAL EQUITY | 237,711 | 219,054 |
| TOTAL LIABILITIES AND EQUITY | $ 269,671 | $ 251,600 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *(In thousands, except share and per share amounts)* | | | |
| Net Sales | $ 50,737 | $ 44,891 | $ 100,467 | $ 90,588 |
| Cost of goods sold | 23,431 | 22,234 | 46,667 | 44,954 |
| GROSS MARGIN | 27,306 | 22,657 | 53,800 | 45,634 |
| OPERATING EXPENSES | | | | |
| Sales and marketing | 9,941 | 8,631 | 19,698 | 16,734 |
| General and administrative | 4,895 | 4,173 | 9,377 | 8,185 |
| Research and development | 1,993 | 1,710 | 3,920 | 3,221 |
| | 16,829 | 14,514 | 32,995 | 28,140 |
| OPERATING INCOME | 10,477 | 8,143 | 20,805 | 17,494 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 43 | 26 | 81 | 48 |
| Change in purchase consideration | (40) | (14) | (53) | (40) |
| Other income (expense) | 75 | (40) | 122 | (74) |
| | 78 | (28) | 150 | (66) |
| INCOME BEFORE INCOME TAXES | 10,555 | 8,115 | 20,955 | 17,428 |
| INCOME TAXES | 3,800 | 2,900 | 7,500 | 6,200 |
| NET INCOME | 6,755 | 5,215 | 13,455 | 11,228 |
| NET LOSS (INCOME) ATTRIBUTABLE TO NON-CONTROLLING INTEREST | 38 | 22 | 52 | 13 |
| NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION | $ 6,793 | $ 5,237 | $ 13,507 | $ 11,241 |
| NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION PER SHARE | | | | |
| Basic | $ 0.29 | $ 0.22 | $ 0.57 | $ 0.48 |
| Diluted | $ 0.28 | $ 0.22 | $ 0.56 | $ 0.47 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *(In thousands, except share and per share amounts)* | | | |
| Net Income | $ 6,755 | $ 5,215 | $ 13,455 | $ 11,228 |
| Currency Translation Adjustments | 130 | (562) | 478 | (676) |
| Comprehensive Income | 6,885 | 4,653 | 13,933 | 10,552 |
| Comprehensive Loss (Income) attributable to non-controlling interest | 38 | 22 | 52 | 13 |
| Comprehensive Income attributable to Neogen Corporation | $ 6,923 | $ 4,675 | $ 13,985 | $ 10,565 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)**

| | Common Stock | | Additional Paid-in | Accumulated Other Comprehensive Income (Loss) | Retained | Non-controlling | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | | Earnings | Interest | Total |
| | | | | *(In thousands)* | | | |
| Balance, June 1, 2012 | 23,620 | $ 3,779 | $ 89,592 | ($ 1,227) | $ 126,695 | $ 215 | $ 219,054 |
| Issuance of shares of common stock under equity compensation plans, and share based compensation, including $1,500 of excessive income tax benefit | 235 | 38 | 4,429 | | | | 4,467 |
| Issuance of shares under employee stock purchase plan | 7 | 1 | 256 | | | | 257 |
| Comprehensive income: | | | | | | | |
| Net income (loss) for the six months ended November 30, 2012 | | | | | 13,507 | (52) | 13,455 |
| Foreign currency translation adjustments | | | | 478 | | | 478 |
| Balance, November 30, 2012 | 23,862 | $ 3,818 | $ 94,277 | ($ 749) | $ 140,202 | $ 163 | $ 237,711 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

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

| | Six Months Ended November 30, 2012 | Six Months Ended November 30, 2011 |
|---|---|---|
| | *(In thousands, except share and per share amounts)* | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $ 13,455 | $ 11,228 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,291 | 2,911 |
| Share based compensation | 1,406 | 1,072 |
| Excess income tax benefit from the exercise of stock options | (1,500) | (1,364) |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (1,297) | (3,235) |
| Inventories | (2,076) | (4,411) |
| Prepaid expenses and other current assets | (1,337) | (726) |
| Accounts payable, accruals and other | (608) | 699 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 11,334 | 6,174 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment and other assets | (3,370) | (8,897) |
| Proceeds from the sale of marketable securities | 34,153 | 39,804 |
| Purchases of marketable securities | (44,082) | (38,199) |
| Payments for business | (9,918) | (813) |
| NET CASH USED IN INVESTING ACTIVITIES | (23,217) | (8,105) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (decrease) in other long-term liabilities | (90) | (854) |
| Net proceeds from issuance of common stock | 2,586 | 2,511 |
| Excess income tax benefit from the exercise of stock options | 1,500 | 1,364 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 3,996 | 3,021 |
| EFFECT OF EXCHANGE RATE ON CASH | 151 | 38 |
| DECREASE IN CASH | (7,736) | 1,128 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 49,045 | 35,844 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 41,309 | $ 36,972 |

See notes to interim consolidated financial statements

**NEOGEN CORPORATION AND SUBSIDIARIES**

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

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six month periods ended November 30, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2013. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2012 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, 2012.

## 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, 2012 | May 31, 2012 |
|---|---|---|
| | *(In thousands)* | |
| Raw Materials | $16,371 | $ 13,997 |
| Work-in-process | 3,027 | 2,110 |
| Finished and purchased goods | 18,977 | 18,885 |
| | $38,375 | $ 34,992 |

## 3. NET INCOME PER SHARE

The calculation of net income per share attributable to Neogen Corporation follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 30, | | November 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | *(In thousands, except per share amounts)* | | | |
| Numerator for basic and diluted net income per share: | | | | |
| Net Income attributable to Neogen shareholders | $ 6,793 | $ 5,237 | $ 13,507 | $ 11,241 |
| Denominator: | | | | |
| Denominator for basic net income per share: | | | | |
| Weighted average shares | 23,828 | 23,418 | 23,752 | 23,369 |
| Effect of dilutive stock options and warrants | 439 | 556 | 479 | 632 |
| Denominator for diluted net income per share | 24,267 | 23,974 | 24,231 | 24,001 |
| Net income attributable to Neogen Corporation per share: | | | | |
| Basic | $ 0.29 | $ 0.22 | $ 0.57 | $ 0.48 |
| Diluted | $ 0.28 | $ 0.22 | $ 0.56 | $ 0.47 |

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**4. SEGMENT INFORMATION**

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

Segment information for the three months ended November 30, 2012 and 2011 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Fiscal 2013 | | | | |
| Net sales to external customers | $ 26,030 | $ 24,707 | $ 0 | $ 50,737 |
| Operating income (reduction) | 7,112 | 3,946 | (581) | 10,477 |
| Total assets | 88,755 | 119,471 | 61,445 | 269,671 |
| Fiscal 2012 | | | | |
| Net sales to external customers | $ 22,042 | $ 22,849 | $ 0 | $ 44,891 |
| Operating income (reduction) | 5,679 | 2,933 | (469) | 8,143 |
| Total assets | 84,719 | 101,341 | 48,258 | 234,318 |

Segment information for the six months ended November 30, 2012 and 2011 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Fiscal 2013 | | | | |
| Net sales to external customers | $ 52,225 | $ 48,242 | $ 0 | $ 100,467 |
| Operating income (reduction) | 14,781 | 7,189 | (1,165) | 20,805 |
| Fiscal 2012 | | | | |
| Net sales to external customers | $ 45,324 | $ 45,264 | $ 0 | $ 90,588 |
| Operating income (reduction) | 12,843 | 5,676 | (1,025) | 17,494 |

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

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**5. EQUITY COMPENSATION PLANS**

Options are generally granted under the employee and director stock option plan for 5 year periods and become exercisable in equal annual installments during that period. Certain non-qualified options are granted for 10 year periods. A summary of stock option activity during the six months ended November 30, 2012 follows:

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| Options outstanding at June 1, 2012 | 1,543,000 | $ 22.34 |
| Granted | 306,000 | 43.00 |
| Exercised | (235,000) | 14.43 |
| Forfeited | (16,000) | 27.69 |
| Options outstanding at November 30, 2012 | 1,598,000 | 27.51 |

During the three and six month periods ended November 30, 2012 and 2011, the Company recorded $724,000 and $472,000 and $1,406,000 and $1,072,000 of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during FY-13 and FY-12, estimated on the date of grant using the Black-Scholes option pricing model was $13.81 and $10.42 respectively, per option. The fair value of stock options granted was estimated using the following weighted-average assumptions.

| | FY-13 | FY-12 |
|---|---|---|
| Risk-free interest rate | 1.2% | 1.2% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 39.2% | 36.4% |
| Expected option life | 4.0 years | 4.0 years |

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

**6. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2011, the FASB issued an accounting standards update titled *Presentation of Comprehensive Income.* This update eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, must be displayed under either alternative. The Company has complied with the required presentation in this quarterly report; the adoption of the required presentation did not affect the results of the Company s operations, only the presentation of such results.

In September 2011, the FASB issued an accounting standards update titled *Intangibles Goodwill and Other: Testing Goodwill for Impairment*. This update gives the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, in some cases, skip the two-step impairment test. This standard is effective for fiscal years beginning after December 15, 2011, and early adoption is permitted. The company performs its annual assessment in the fourth quarter of its fiscal year, and at that time will determine which approach to use. It is not expected that the adoption of this update will have a material effect on the Company s consolidated financial statements.

In July 2012, the FASB issued an accounting standard update titled *Intangibles Goodwill and Other: Testing Indefinite Lived Intangible Assets for Impairment*. This update gives the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of the intangible amount is less than its carrying amount and, in some cases, skip the quantitative impairment test. This standard is effective for fiscal years beginning after September 15, 2012, and early adoption is permitted. It is not expected that the adoption of this update will have a material effect on the Company s consolidated financial statements.

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**7. BUSINESS AND PRODUCT LINE ACQUISITIONS**

On April 1, 2010, Neogen Corporation acquired GeneSeek, Inc. of Lincoln, Nebraska, a leading commercial agricultural genetic laboratory. GeneSeek s technology employs high-resolution DNA genotyping for identity and trait analysis in a variety of important animal and agricultural plant species. Consideration for the purchase was $14,050,000 in cash and secondary payment obligations of up to $7,000,000. The allocation of the purchase price included accounts receivable of $1,923,000, inventory of $1,512,000, fixed assets of $847,000, current liabilities of $905,000, deferred tax liabilities of $2,530,000, secondary payment liabilities of $3,583,000, and the remainder to goodwill (not deductible for tax purposes) and other intangible assets (with estimated lives of 5-20 years). The allocation was generally based on the fair value of these assets determined using the income approach. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 fair value measurements. The secondary payment was based upon future operating results of the GeneSeek business through 2013, and payable annually over a three year period, measured at fair value, and is considered a Level 3 fair value measurement. The Company recorded a charge within other income (expense) of approximately $787,000 for the year ended May 31, 2011, representing the increase from its original estimate in fair value of the secondary payment liability. As of May 31, 2011, the balance of the secondary payment liability recorded was approximately $4,370,000. A payment of $1,856,000 was made in June, 2011 to the former owners of Geneseek, comprised of $1,537,000 for the first year contingent payment and an additional $319,000 for inventory purchased post acquisition and settlement of other liabilities. In 2012, the Company reversed $154,000 of the secondary payment liability, based on a lower calculated second year payout than had been estimated at May 31, 2011 due to lower 2012 earnings. In May 2012, the second year payment of $1,263,000 was made to the former owners; the balance of the secondary liability recorded at November 30, 2012 was $1,447,000 for the third and final year of the agreement, expected to be paid in the fourth quarter of fiscal year 2013. The acquisition has been integrated into the Animal Safety segment.

On June 21, 2011, Neogen Corporation acquired the assets of VeroMara seafood testing laboratory for approximately $813,000 in cash and a potential secondary payment of approximately $200,000 from its parent company, GlycoMar Ltd. Formerly based in Oban, Scotland, VeroMara offers commercial testing for the shellfish and salmon aquaculture industries. VeroMara s offerings include tests for shellfish toxins, general foodborne pathogens, including E. coli noroviruses, and salmon husbandry. VeroMara recorded revenues of approximately $800,000 (U.S.) in its most recently completed fiscal year. The business has been relocated to the Company s location in Ayr, Scotland, which reports within the Food Safety segment.

On May 1, 2012, the Company purchased the assets of the Igenity animal genomics business from Merial Limited. Consideration for the purchase, which was determined through arm s length negotiations, was $3,200,000 in cash and $600,000 accrued for secondary consideration. The preliminary purchase price allocation included net current assets of $335,000, fixed assets of $340,000 and intangible assets of $3,125,000. The allocation was generally based on the fair value of these assets determined using the income approach. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 fair value measurements. In the past, GeneSeek conducted the genetic testing of samples for Igenity, and Igenity used the information with its extensive bioinformatics system to identify the animal s positive or negative traits. The Igenity business has been moved to GeneSeek s operations in Lincoln, Nebraska, and operates as part of the GeneSeek subsidiary, within the Animal Safety segment.

On October 1, 2012, Neogen Corporation acquired the stock of Macleod Pharmaceuticals, of Fort Collins, Colorado. Macleod is the manufacturer of Uniprim, a leading veterinary antibiotic. The product is widely distributed throughout the U.S., and is also available in Canada through an exclusive distribution agreement. Consideration for the purchase was $9,918,000 in net cash and $100,000 accrued for secondary consideration. The preliminary purchase price allocation, based upon the fair value of these assets determined using the income approach, included accounts receivable of $353,000, inventory of $1,238,000, fixed assets of $300,000, current liabilities of $82,000, deferred tax liabilities of $748,000, secondary payment liabilities of $100,000, and goodwill and intangible assets of $8,957,000. These values are Level 3 fair value measurements. Macleod will operate as a subsidiary of Neogen Corporation, reporting within the Animal Safety segment.

**8. LONG TERM DEBT**

The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of $12,000,000, which maturity was extended to September 1, 2014 during the first quarter of fiscal year 2013. There were no advances against this line of credit during FY-2013 and FY-2012 and no balance outstanding at November 30, 2012. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.21% at November 30, 2012). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at November 30, 2012.

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**9. COMMITMENTS AND CONTINGENCIES**

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company is currently expensing annual costs of remediation, which have ranged from $50,000 to $105,000 per year over the past five years. The Company s estimated liability for these costs of $916,000 at November 30, 2012 and May 31, 2012, measured on an undiscounted basis over an estimated period of 15 years, is recorded within other long-term liabilities in the consolidated balance sheet.

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

**10. STOCK PURCHASE**

In December 2008, the Company s Board of Directors authorized a program to purchase, subject to market conditions, up to 750,000 shares of the Company s common stock. As of November 30, 2012, 74,684 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately $923,000. Shares purchased under the program were retired. There have been no purchases in FY-13 and there were none in FY-12.

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**PART I FINANCIAL INFORMATION**

**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 important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company s reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation s results to differ materially from those indicated by such forward-looking statements, including those detailed in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

**Critical Accounting Policies and Estimates**

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

There were no significant changes to our contractual obligations or contingent liabilities and commitments disclosed in the Company s Annual Report or Form 10-K for the fiscal year ended May 31, 2012.

There have been no material changes to the critical accounting policies and estimates disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

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**Executive Overview**

Neogen Corporation revenues for the second quarter ended November 30, 2012 were $50.7 million, an increase of $5.8 million, or 13.0%, compared to the same period in the prior year. For the year to date ended November 30, 2012 revenues were $100.5 million, an increase of $9.9 million, or 10.9%, compared to the prior year. Food Safety revenues increased by 18.1% and 15.2% for the comparative quarter and six-month period ended November 30, 2012, respectively. Animal Safety revenues increased by 8.1% and 6.6%, respectively, for the same comparative periods. Overall organic sales growth was 9.4% and 8.8% for the second quarter and six-month period ended November 30, 2012, respectively. The remainder of growth consisted of revenues from the Igenity acquisition, completed in May 2012, and the Macleod Pharmaceuticals acquisition, completed in October 2012.

Neogen Europe sales increased by 31.1% for the second quarter and 24.7% on a year-to-date basis. The revenue increase was primarily due to a DON outbreak in Europe in the current fiscal year, a recovery in sales to EU distributors, and certain genomics revenues from a number of European customers. Neogen do Brasil continued to penetrate the Brazilian food safety market and had growth of 51.4% and 52.5%, for the quarter and year respectively, albeit on a small base. Their increases primarily came from sales of natural toxins and dairy antibiotics test kits. Neogen Latinoamerica sales decreased by 5.7% for the quarter and 16.9% for the year, primarily due to some one-time sales in the prior year not repeated in the current year.

Gross margins increased from 50.5% for the November 2011 quarter to 53.8% for the November 2012 quarter and increased from 50.4% to 53.6% on a year-to-date basis. The increase in margin percentage for each comparative period was largely the result of a shift in product mix toward diagnostic products in the Food Safety segment, which have higher margins. Additionally, margins improved within the Animal Safety segment due to increased sales of rodenticides, small animal supplements, and the products acquired in the Macleod acquisition, which are higher margin products within that segment. To a lesser extent, gross margins improved for each comparative period due to manufacturing efficiencies. Operating margins increased for the comparative quarter and six-month periods from 18.1% to 20.7% and from 19.3% to 20.7%, respectively. The increases were due to the improved gross margins in both the quarter and year-to-date, offset slightly by increased operating expenses.

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**Revenues**

Three and six months ended November 30, 2012 and November 30, 2011:

| | Three Months ended November 30, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | Increase/ (Decrease) | % |
| | | (In thousands) | | |
| **Food Safety** | | | | |
| Natural Toxins, Allergens & Drug Residues | $ 13,975 | $ 11,501 | $ 2,474 | 21.5% |
| Bacteria & General Sanitation | 5,890 | 5,839 | 51 | 0.9% |
| Dehydrated Culture Media & Other | 6,165 | 4,702 | 1,463 | 31.1% |
| | $ 26,030 | $ 22,042 | $ 3,988 | 18.1% |
| **Animal Safety** | | | | |
| Life Science & Other | $ 1,821 | $ 1,974 | $ (153) | (7.8%) |
| Vaccines | 655 | 852 | (197) | (23.1%) |
| Rodenticides & Disinfectants | 8,052 | 7,106 | 946 | 13.3% |
| Veterinary Instruments & Other | 10,620 | 8,986 | 1,634 | 18.2% |
| DNA Testing | 3,559 | 3,931 | (372) | (9.5%) |
| | $ 24,707 | $ 22,849 | $ 1,858 | 8.1% |
| Total Revenues | $ 50,737 | $ 44,891 | $ 5,846 | 13.0% |

| | Six Months ended November 30, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | Increase/ (Decrease) | % |
| | | (In thousands) | | |
| **Food Safety** | | | | |
| Natural Toxins, Allergens & Drug Residues | $ 27,716 | $ 23,463 | $ 4,253 | 18.1% |
| Bacteria & General Sanitation | 12,461 | 12,274 | 187 | 1.5% |
| Dehydrated Culture Media & Other | 12,048 | 9,587 | 2,461 | 25.7% |
| | $ 52,225 | $ 45,324 | $ 6,901 | 15.2% |
| **Animal Safety** | | | | |
| Life Science & Other | $ 3,697 | $ 4,071 | $ (374) | (9.2%) |
| Vaccines | 1,168 | 1,339 | (171) | (12.8%) |
| Rodenticides & Disinfectants | 15,359 | 13,730 | 1,629 | 11.9% |
| Veterinary Instruments & Other | 19,955 | 18,427 | 1,528 | 8.3% |
| DNA Testing | 8,063 | 7,697 | 366 | 4.8% |
| | $ 48,242 | $ 45,264 | $ 2,978 | 6.6% |
| Total Revenues | $ 100,467 | $ 90,588 | $ 9,879 | 10.9% |

Food Safety revenues increased 18.1% in the second quarter and 15.2% in the first six months of FY-13, compared to the prior year periods. Sales of Natural Toxins, Allergens and Drug Residue products increased by 21.5% in the quarter and 18.1% for the year-to-date, each compared with FY-12. The increase was led by sales of aflatoxin test kits, readers, and accessories, due to an aflatoxin outbreak in the United States. Sales of DON tests were also up significantly, due primarily to an outbreak in the European wheat crop. Combined, these products were up 76.4% in the second quarter, with the majority of the crops harvested for the year. These increases were partially offset by an 18.5% decrease in Drug Residue sales in the quarter, mainly the result of lower sales of tests used to detect the presence of antibiotics in dairy animals caused by timing of orders from a large international distributor. For the six months, aflatoxin, DON and related equipment and accessories sales were up 49.9% over the prior year. Sales of Drug Residue products were down 4.8% for the year-to-date. The Allergens product line continued its consistent growth with sales up 16.1% and 16.8% for the quarter and year-to-date periods, respectively. This product line has grown as the customer base has become more aware of the dangers of inadvertent allergen contamination in finished food product.

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Dehydrated Culture Media and Other sales were up 31.1% in the second quarter and 25.7% in the first six months of FY-13, compared to the prior year periods, primarily due to the contributions from certain genomics revenues to a number of European customers. Also within this category, tests for histamine contamination in harvested fish were up 29.0% for the second quarter, due to increased testing; additionally, customers affected by the aflatoxin outbreak significantly increased purchases of miscellaneous lab supplies necessary for processing samples. Bacteria and General Sanitation had increases of 0.9% and 1.5% for the quarter and year-to-date respectively. Soleris sales were down 5.9% for the quarter and 9.8% for the year. Soleris consumables products were up 3.8% in the second quarter and 9.5% on a year-to-date basis; however, the related equipment sales declined compared to the prior year, primarily due to sales in China a year ago which were not repeated this year. The Company s new ANSR pathogen detection system is being evaluated by a number of potential customers and is expected to positively impact revenues in this product line in the second half of the year.

Animal Safety revenues increased by 8.1% in the second quarter and 6.6% for the year-to-date period ended November 30, 2012 in comparison with the prior year periods. Organic revenue growth was 1.6% for the quarter and 2.7% for the year. The remainder of the growth is from contributions of Igenity, acquired in May 2012, and Macleod Pharmaceuticals, acquired in October 2012. Life Science and Other sales were down 7.8% for the quarter, due primarily to lower sales of ractopomine detection kits for the China market. On a year-to-date basis, Life Science and Other sales were down 9.2%. Within this category, sales to the racing market are down 24.9%, due to state lab closures and consolidations and reduced testing, while sales to the forensics market were up 4.4%. Vaccines are down 23.1% for the quarter and 12.8% for the year, mainly due to order timing from an international distributor. The sales in this category represent a very small amount of the Animal Safety segment sales.

Rodenticide and Disinfectant revenues increased by 13.3% in the second quarter and 11.9% on a year-to-date basis, each compared to the prior year. Rodenticide sales are up 23.0% for the quarter and 25.5% for the year-to-date, indicative of a recovery in this line, which lagged in the prior year due to an inventory stocking by customers in late FY-11 ahead of a packaging law change. Veterinary Instruments and Other sales had an increase of 18.2% in the second quarter of FY-13 compared to FY-12. Within this category, the Company benefitted from sales of newly-acquired Uniprim and a 140.6% increase in the small animal supplements line due to a supply disruption caused by a competitor s shutdown. While Neogen successfully converted some customers to our comparable product in the first half of the year, the competitor has resumed operations and it is not yet known how much business will be retained. Offsetting the gains in this category was a 54.2% decrease in vitamin injectables, due to product coming off a lengthy backorder from FY-11, which caused sales spikes in the first half of FY-12. Sales for the first half of FY-13 more accurately reflect ongoing demand. On a year-to-date basis, Veterinary Instruments and Other revenues are up 8.3%. The year-to-date increase was led by the small animal supplements line, but was offset by decreases in vitamin injectables and the loss of the needle and syringe business of a large customer in the second quarter of FY-12, which negatively affected the prior year comparison.

Revenues decreased at Geneseek by 9.5% in FY-13 compared to the second quarter of FY-12. Sample unit volume is up by approximately 20% at Geneseek; however, average selling price has declined, as customers switch to products with lower genomic content. Geneseek s contract business is not necessarily consistent or predictable from period-to-period as to its timing or amount.

Gross margins increased from 50.5% in the second quarter of FY-12 to 53.8% in the second quarter of FY-13, and for the year-to-date, from 50.4% in FY-12 to 53.6% in FY-13. The increases in each period were due primarily to the growth in revenue of diagnostic products, led by the increase in aflatoxin test kits, which resulted in a greater proportion of Food Safety revenues to overall sales. Additionally, gross margins increased within the Animal Safety segment due to a shift in product mix resulting from higher sales of small animal supplements, rodenticides, and the new Uniprim product line acquired from Macleod. Due to the nature of the business, gross margins can vary on a quarterly basis, based on changes in product mix.

Operating margins increased to 20.6% for the second quarter compared to 18.1% for the same period in the prior year, primarily the result of the improved gross margins and partially offset by higher operating expenses. Operating expenses increased 16.0% for the quarter, reflecting investments made in sales and marketing personnel during the last half of FY-12. The company also incurred increases in legal fees, stock option expense, and project costs within research and development as a result of recent and upcoming product launches. For the year-to-date, operating margins increased to 20.7% from 19.3%, the result of improved gross margins, partially offset by increased operating expenses, which were up 17.3%.

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**Financial Condition and Liquidity**

The overall cash and marketable securities position of the Company was $70,838,000 at November 30, 2012, compared to $68,645,000 at May 31, 2012. Approximately $11,334,000 in cash was generated from operations during the first six months of 2013. Net cash proceeds of $2,586,000 were realized with the exercise of stock options and issuance of shares under the Company s Employee Stock Purchase Plan during the first six months of FY-13. In October 2012, the Company purchased the stock of MacLeod Pharmaceuticals for $9,918,000 net cash (see Note 7). The Company spent $3,370,000 for equipment and other non-current assets in the first six months of 2012. Accounts receivable increased by $1,297,000 due to the increase in revenues; inventory levels increased by $2,076,000 compared to May 31, 2012. Each of these items increased, on a percentage basis, by less than the percentage increase in sales.

Inflation and changing prices are not expected to have a material effect on operations, as management believes it has and will be successful in offsetting increased input costs with price increases.

Management believes that the Company s existing cash and marketable securities balances at November 30, 2012, along with available borrowings under its credit facility and cash expected to be generated from future operations, will be sufficient to fund activities for the foreseeable future. However, existing cash and borrowing capacity may not be sufficient to meet the Company s cash requirements to commercialize products currently under development or its plans to acquire other organizations, technologies or products that fit within the Company s mission statement. Accordingly, the Company may choose to issue equity securities or enter into other financing arrangements for a portion of its future financing needs.

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**PART I FINANCIAL INFORMATION**

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

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

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

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

**PART I FINANCIAL INFORMATION**

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of November 30, 2012 was carried out under the supervision and with the participation of the Company s management, including the Chairman & Chief Executive Officer and the Vice President & Chief Financial Officer ( the Certifying Officers ). Based on the evaluation, the Certifying Officers concluded that the Company s disclosure controls and procedures are effective.

**Changes in Internal Controls Over Financial Reporting**

There was no change to the Company s internal control over financial reporting during the quarter ended November 30, 2012 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 outcomes of these matters are not expected to have a material effect on its future results of operations or financial position.

### Item 6. Exhibits

(a) Exhibit Index

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a    14(a). |
| 32 | Certification pursuant to 18 U.S.C. section 1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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

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**SIGNATURES**

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

NEOGEN CORPORATION
*(Registrant)*

Dated: December 28, 2012

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

Dated: December 28, 2012

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