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Operating Leases

665,000 313,000 352,000

Unconditional Purchase Obligations

13,850,000 13,850,000 $14,515,000 $14,163,000 $352,000 $ $

**NEW ACCOUNTING PRONOUNCEMENTS**

See discussion of any New Accounting Pronouncements in Note 1 to Consolidated Financial Statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

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.

Because Neogen markets and sells its products throughout the world, it could be affected by weak economic conditions in foreign markets that could reduce the demand for its products. 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 and the British Pound and 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.

Neogen has assets, liabilities and operations outside of the United States that are located primarily in Ayr, Scotland where the functional currency is the British Pound Sterling. To a lesser extent it also has assets, liabilities and operations in Mexico where the functional currency is the Mexican Peso and in Brazil where the functional currency is the Real. The Company s investment in its foreign subsidiaries are considered long-term; accordingly, it does not hedge the net investment nor does it generally engage in other foreign currency hedging activities due to the insignificance of these balances to the Company as a whole. It does however use strategies to reduce current exposure to currency fluctuations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

The response to this item is submitted in a separate section of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no disagreements or reportable events with Ernst &Young LLP.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedure (as defined in Rule 13-a-15 (e) under the Securities Exchange Act of 1934) as of May 31, 2010. Based on and as of the time of such evaluation, the Company s Management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and to ensure the information required to be disclosed

31

Table of Contents

in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer to allow timely decisions regarding required disclosure.

**Management s Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rues 13-a-15(f) and 15d-15(f). Under the supervision and with the participation of the company s management, including the Chief Executive Officer and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2010, based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that internal control over financial reporting was effective as of May 31, 2010. The effectiveness of internal control over financial reporting as of May 31, 2010, has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included in Item 8 and is incorporated into this Item 9A by reference.

Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of GeneSeek, Inc., which are included in the consolidated financial statements of Neogen Corporation and Subsidiaries and constituted 11% and 10% of total assets and net assets, as of May 31, 2010 and 1% and 4% of revenues and net income respectively, for the year then ended.

**Changes in Internal Control over Financial Reporting.**

Except for the acquisition of GeneSeek, Inc., no changes in internal control over financial reporting were indentified as having occurred during the quarter ended May 31, 2010 that have materially affected, or are reasonably likely to materially affect, internal control financial reporting.

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Neogen Corporation

We have audited Neogen Corporation and subsidiaries internal control over financial reporting as of May 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Neogen Corporation and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting . Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of GeneSeek, Inc, which is included in the consolidated financial statements of Neogen Corporation and subsidiaries and constituted 11% and 10% of total and net assets, respectively, as of May 31, 2010 and 1% and 4% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Neogen Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of GeneSeek, Inc.

In our opinion, Neogen Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Neogen Corporation and subsidiaries as of May 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended May 31, 2010, and our report dated August 16, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grand Rapids Michigan

August 16, 2010

Table of Contents

**ITEM 9B. OTHER INFORMATION NONE**

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE**

Information regarding the Company and certain corporate governance matters appearing under the captions Election of Directors , Audit Committee , and Miscellaneous-Section 16(a) Beneficial Ownership Reporting Compliance in the 2010 proxy statement is included herein by reference.

The Company has adopted a Code of Conduct that applies to all of its directors, officers and employees. The Company has made a copy of this Code of Conduct available on its Website at http://www.neogen.com/pdf/Code_of_Conduct.pdf.

OFFICERS AND OTHER KEY INDIVIDUALS OF THE REGISTRANT

The officers of Neogen are elected by and serve at the discretion of the Board of Directors. The names and occupations of the Company s officers are set forth below.

| Name | Position with the Company | Year Joined the Company |
|---|---|---|
| Lon M. Bohannon | President & Chief Operating Officer, Director | 1985 |
| Edward L. Bradley | Vice President, Food Safety | 1995 |
| Richard R. Current | Vice President & Chief Financial Officer and Secretary | 1999 |
| James L. Herbert | Chairman of the Board & Chief Executive Officer | 1982 |
| Kenneth V. Kodilla | Vice President, Manufacturing | 2003 |
| Joseph M. Madden, Ph.D. | Vice President, Scientific Affairs | 1997 |
| Anthony E. Maltese | Vice President, Corporate Development | 1999 |
| Terri A. Morrical | Vice President, Animal Safety | 1992 |
| Mark A. Mozola, Ph.D. | Vice President, Research & Development | 2001 |

There are no family relationships among officers. Information concerning the executive officers of Neogen follows:

Lon M. Bohannon, age 57, joined the Company in October 1985 as Vice President of Finance, was promoted to Chief Financial Officer in June 1987, was promoted to Vice President Administration and Chief Financial Officer in November 1994, was elected to the Board of Directors in October 1996, and was named Chief Operating Officer in September 1999. Mr. Bohannon was named President & Chief Operating Officer in June 2006. He is responsible for all Company operations except research, Neogen Europe and corporate development. A CPA, he was Administrative Controller for Federal Forge, Inc., a metal forging and stamping firm, from March 1980 until October 1985, and was associated with the public accounting firm of Ernst & Young LLP from June 1975 to March 1980.

Edward L. Bradley, age 50, joined Neogen in February 1995 as Vice President of Sales and Marketing for AMPCOR Diagnostics, Inc. In June 1996, he was made a Vice President of Neogen Corporation. In June 2006, Mr. Bradley was named Vice President Food Safety. From 1988 to 1995, Mr. Bradley served in several sales and marketing capacities for Mallinckrodt Animal Health, including the position of National Sales Manager responsible for 40 employees in its Food Animal Products Division. Prior to joining Mallinckrodt, he held several sales and marketing positions for Stauffer Chemical Company.

Richard R. Current, age 66, joined the Company in November 1999 as Vice President & Chief Financial Officer. In 2007 he was appointed as Secretary of the Company. Prior to joining Neogen, Mr. Current served as Executive Vice President and Chief Financial Officer of Integral Vision, Inc. from 1994 to 1999 and as Vice President and Chief Financial Officer of the Shane Group, Inc., a privately held company from 1991 to 1994. Mr. Current was associated with the public accounting firm of Ernst & Young LLP for 24 years and served as Managing Partner of the Lansing, Michigan office from 1986 to 1991.

34

Table of Contents

James L. Herbert, age 70, has been Chief Executive Officer and a director of the Company since he joined Neogen in June 1982. He served as President from June 1982 through June 2006. From 1999 to 2001 he was Chairman of the Company s Board; and was again named Chairman in June 2006. He previously held the position of Corporate Vice President of DeKalb Ag Research, a major agricultural genetics and energy company. He has management experience in animal biologics, specialized chemical research, medical instruments, aquaculture, animal nutrition, and poultry and livestock breeding and production.

Kenneth V. Kodilla, age 53, joined the Company in November 2003 as Vice President of Manufacturing. He has responsibility for all manufacturing, inventory management, shipping and quality system operations for the Company s Food Safety Division in Lansing, Michigan. Prior to Neogen, Mr. Kodilla served as plant manager for Facet Technologies in Atlanta, Georgia from 2001, as Manufacturing Manager for Becton Dickinson and Difco Laboratories from 1988, and as Quality Manager for Lee Laboratories from 1984. Mr. Kodilla s manufacturing and regulatory experience includes FDA/ISO regulated Class and diagnostic reagents and devices, high volume automated assembly and packaging, materials management and plant operations.

Dr. Joseph M. Madden, age 61, joined Neogen in December 1997 as Vice President of Scientific Affairs after retiring from the Food and Drug Administration as its Microbiology Strategic Manager. He joined the FDA in 1978 and spent his first 10 years as a research microbiologist for the agency. Dr. Madden has served on numerous committees on food safety, including his current appointment to the National Advisory Committee on Microbiological Criteria for Foods. He is regarded by regulatory agencies and the food industry as being one of the nation s top experts on both scientific and regulatory issues relating to food safety.

Anthony E. Maltese, age 67, joined Neogen on June 1, 1999 as Manager of Corporate Development. He was promoted to Vice President in October 2000. Prior to joining Neogen, Mr. Maltese served as Vice President of Business Development for Creatogen Biosciences, GmbH of Angsburg, Germany. From 1990 to 1998, he worked in production and special project management positions for REMEL, Inc. including Manager of Business Development. Prior to REMEL, Mr. Maltese spent 20 years at Difco Laboratories, where he served in several management positions in the areas of purchasing, technical sales support, production and research.

Terri A. Morrical, age 45, joined Neogen Corporation on September 1, 1992 as part of the Company s acquisition of WTT, Incorporated. In June 2006, Ms. Morrical was named Vice President, Animal Safety. From 1986 to 1991, she was Controller for Freeze Point Cold Storage Systems and concurrently served in the same capacity for Powercore, Inc. In 1990, she joined WTT, Incorporated as VP/CFO and then became President, the position she held at the time Neogen acquired the business.

Dr. Mark A. Mozola, age 54, became Neogen s Vice President of Research and Development in 2001 following the Company s acquisition of GENE-TRAK Systems. He served in various technical and managerial positions at GENE-TRAK Systems for 16 years, most recently as General Manager. He has also served as a Laboratory Director for Silliker Laboratories. Dr. Mozola s particular technical expertise is in the area of development of modern, rapid methods for the detection of foodborne pathogens.

The Board of Directors has also named a Scientific Review Council to serve at the pleasure of the Board. The Scientific Review Council meets several times annually to review the research progress of the Company and to recommend or approve new research and product development activities of the Company.

Table of Contents

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to Neogen s Proxy Statement to be filed within 120 days of May 31, 2010.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated by reference to Neogen s Proxy Statement to be filed within 120 days of May 31, 2010.

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Jack C. Parnell, a Director of the Company, is a governmental relations advisor to the law firm of Kahn, Soares & Conway. Kahn, Soares & Conway an arrangement with Neogen to represent it in governmental relations matters. The Company pays Kahn, Soares & Conway a monthly fee of $750 for up to ten hours of consulting. The arrangement with Kahn, Soares & Conway is terminable by either party at the end of any month with 30 days notice.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to Neogen s proxy statement to be filed within 120 days of May 31, 2010.

Table of Contents

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2) and (c). The response to this portion of ITEM 15 is submitted as a separate section of this report.

(a) (3). The Exhibits listed on the accompanying Exhibits Index, which immediately follows the signature page, is incorporated herein by reference.

37

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOGEN CORPORATION

| | |
|---|---|
| /s/ James L. Herbert | /s/ Richard R. Current |
| James L. Herbert, Chairman & Chief Executive Officer (Principal Executive Officer) | Richard R. Current, Vice President & Chief Financial Officer (Principal Accounting Officer) |

Dated: August 16, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| **Signature** | **Title** | **Date** |
|---|---|---|
| /s/ James L. Herbert<br>James L. Herbert | Chairman of the Board of Directors & Chief Executive Officer, (Principal Executive Officer) | August 16, 2010 |
| /s/ Lon M. Bohannon<br>Lon M. Bohannon | President & Chief Operating Officer | August 16, 2010 |
| *<br>Robert M. Book | Director | |
| *<br>A. Charles Fischer | Director | |
| *<br>Richard T. Crowder | Director | |
| *<br>G. Bruce Papesh | Director | |
| *<br>Jack C. Parnell | Director | |
| * | Director | |

Thomas H. Reed

| | |
|---|---|
| * | Director |

Clayton K. Yeutter, Ph.D.

*By: /s/ James L. Herbert
James L. Herbert, Attorney-in-fact

August 16, 2010

Table of Contents

Neogen Corporation

Annual Report on Form 10-K

Year Ended May 31, 2010

**EXHIBIT INDEX**

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 4.1 | Articles of Incorporation, as restated (Incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q dated February 29, 2000). |
| 4.2 | By-Laws, as amended (Incorporated by reference to Exhibit 3.2 to the Registrant s Quarterly Report on Form 10-Q dated February 29, 2000). |
| 10.5 | Neogen Corporation 2002 Employee Stock Purchase Plan Agreement (Incorporated by reference to Exhibit 99.1 to the Registrant s Registration Statement on Form S-8 (No. 333-101638) filed December 4, 2002). |
| 10.6 | Neogen Corporation 401(k) Retirement Savings Plan Agreement (Incorporated by reference to Exhibit 99.1 to the Registrant s Registration Statement on Form S-8 (No. 333-101639) filed December 4, 2002). |
| 10.7 | Neogen Corporation 1997 Stock Option Plan, as amended (Incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement on Form S-8 (No. 333-122110) filed January 18, 2005). |
| 10.9 | Neogen Corporation 2007 Stock Option Plan, (Incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement on Form S-8 (No. 333-148283) filed December 21, 2007). |
| 10.10 | Asset purchase agreement between Registrant and Kane Enterprises dated August 24, 2007 (Incorporated by reference to Exhibit 10.9 to the Registrants Current Report on Form 8-K dated August 29, 2007). |
| 10.11 | Line of Credit Note between Registrant and JP Morgan Chase NA Dated May 20, 2010. |
| 10.12 | Credit Agreement between Registrant and JP Morgan Chase NA Dated May 20, 2010. |
| 10.13 | Stock Purchase Agreement between Registrant and the Stockholders of GeneSeek, Inc. Dated<br>April 1, 2010; and amendment thereto dated June 28, 2010 |
| 21 | Subsidiaries of the Registrant |
| 23(a) | Consent of Independent Registered Public Accounting Firm Ernst & Young LLP. |
| 24.2 | Power of Attorney. |
| 31.1 | Section 302 Certification of Principal Executive Officer. |
| 31.2 | Section 302 Certification of Principal Financial Officer. |
| 32 | Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**Table of Contents**

ANNUAL REPORT ON FORM 10-K

ITEM 15 (a)(1)(2) (3) (a) and (c)

LIST OF FINANCIAL STATEMENTS, EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

YEAR ENDED MAY 31, 2010

NEOGEN CORPORATION

LANSING, MICHIGAN

FORM 10-K ITEM 15(a)(1) AND (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of Neogen Corporation and subsidiaries are included in ITEM 8:

Report of Independent Registered Public Accounting Firm on Financial Statements

Consolidated Balance Sheets May 31, 2010 and 2009

Consolidated Statements of Income Years ended May 31, 2010, 2009 and 2008

Consolidated Statements of Stockholders Equity Years ended May 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows Years ended May 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

Schedules for which provision is made in the applicable accounting regulation of the United States Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

FORM 10-K Item 15 (a) (3)

A list of Exhibits required to be filed as a part of this report is set forth in the Exhibit Index, which immediately follows the signature page, and is incorporated herein by reference.

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Neogen Corporation

We have audited the accompanying consolidated balance sheets of Neogen Corporation and subsidiaries (the Company) as of May 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended May 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neogen Corporation and subsidiaries at May 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Neogen Corporation and subsidiaries internal control over financial reporting as of May 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 16, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grand Rapids Michigan

August 16, 2010

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Balance Sheets Assets**

(Dollars in thousands)

| | May 31, 2010 | May 31, 2009 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 22,806 | $ 13,842 |
| Accounts receivable, less allowance of $600 at May 31, 2010 and 2009 | 27,433 | 23,363 |
| Inventories | 31,316 | 31,363 |
| Deferred income taxes | 774 | 200 |
| Prepaid expenses and other current assets | 3,691 | 2,998 |
| Total Current Assets | 86,020 | 71,766 |
| Property and Equipment | | |
| Land and improvements | 1,181 | 1,175 |
| Buildings and improvements | 13,330 | 11,184 |
| Machinery and equipment | 19,474 | 17,008 |
| Furniture and fixtures | 767 | 806 |
| | 34,752 | 30,173 |
| Less accumulated depreciation | 15,572 | 13,115 |
| Net Property and Equipment | 19,180 | 17,058 |
| Other Assets | | |
| Goodwill | 52,899 | 39,717 |
| Other non-amortizable intangible assets | 4,139 | 3,730 |
| Amortizable customer based intangibles, net of accumulated amortization of $4,002 and $2,861 at May 31, 2010 and 2009 | 13,021 | 6,143 |
| Other non-current assets, net of accumulated amortization of $1,822 and $1,663 at May 31, 2010 and 2009 | 4,974 | 3,762 |
| Total Other Assets | 75,033 | 53,352 |
| | $ 180,233 | $ 142,176 |

See accompanying notes to consolidated financial statements.

-F1-

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Balance Sheets Liabilities and Equity**

(Dollars in thousands, except per share)

| | May 31, 2010 | May 31, 2009 |
|---|---|---|
| Liabilities and Equity | | |
| Current Liabilities | | |
| Accounts payable | $ 7,187 | $ 3,909 |
| Accruals | | |
| Compensation and benefits | 2,346 | 2,519 |
| Federal income taxes | 2,838 | 667 |
| Other | 4,662 | 2,151 |
| Total Current Liabilities | 17,033 | 9,246 |
| Deferred Income Taxes | 5,824 | 2,725 |
| Other Long-Term Liabilities | 4,323 | 1,526 |
| Total Liabilities | 27,180 | 13,497 |
| Equity | | |
| Preferred stock, $1.00 par value - shares authorized 100,000; none issued and outstanding | | |
| Common stock, $0.16 par value - shares authorized 30,000,000; 22,625,399 and 22,105,329 shares issued and outstanding at May 31, 2010 and 2009 | 3,621 | 3,537 |
| Additional paid-in capital | 69,550 | 61,535 |
| Accumulated other comprehensive loss | (1,676) | (430) |
| Retained earnings | 81,170 | 63,611 |
| Total Neogen Corporation and Subsidiaries Stockholders Equity | 152,665 | 128,253 |
| Noncontrolling interest | 388 | 426 |
| Total Equity | 153,053 | 128,679 |
| | $ 180,233 | $ 142,176 |

See accompanying notes to consolidated financial statements.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Statements of Income**

(Dollars in thousands, except per share)

| | Year Ended May 31 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Net Sales | $ 140,509 | $ 118,721 | $ 102,418 |
| Cost of Goods Sold | 67,534 | 59,288 | 49,185 |
| Gross Margin | 72,975 | 59,433 | 53,233 |
| Operating Expenses | | | |
| Sales and marketing | 26,350 | 22,906 | 20,648 |
| General and administrative | 13,488 | 11,484 | 10,927 |
| Research and development | 6,258 | 4,555 | 3,639 |
| | 46,096 | 38,945 | 35,214 |
| Operating Income | 26,879 | 20,488 | 18,019 |
| Other Income | | | |
| Interest income | 81 | 248 | 442 |
| Royalty income | 181 | 429 | |
| Other, net | 180 | 459 | 37 |
| | 442 | 1,136 | 479 |
| Income Before Income Taxes | 27,321 | 21,624 | 18,498 |
| Provision for Income Taxes | 9,800 | 7,750 | 6,400 |
| Net Income | $ 17,521 | $ 13,874 | $ 12,098 |
| Net Income Per Share | | | |
| Basic | $ 0.78 | $ 0.63 | $ 0.56 |
| Diluted | $ 0.76 | $ 0.61 | $ 0.54 |

See accompanying notes to consolidated financial statements.

-F3-

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Statements of Equity**

(Dollars in thousands, except share amounts)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance, June 1, 2007 | 21,031,209 | $ 3,365 | $ 50,577 | $ 386 | $ 37,617 | $ | 91,945 |
| Exercise of options and warrants, net of share based compensation, including $747,000 income tax benefit | 724,440 | 116 | 6,827 | | | | 6,943 |
| Issuance of shares under Employee Stock Purchase Plan | 21,767 | 3 | 224 | | | | 227 |
| Comprehensive income: | | | | | | | |
| Net income for 2008 | | | | | 12,098 | | 12,098 |
| Foreign currency translation adjustments | | | | 35 | | | 35 |
| Total comprehensive income | | | | | | | 12,133 |
| Balance, May 31, 2008 | 21,777,416 | 3,484 | 57,628 | 421 | 49,715 | | 111,248 |
| Exercise of options and warrants, net of share based compensation, including $682,000 income tax benefit | 382,782 | 62 | 4,523 | | | | 4,585 |
| Issuance of shares under Employee Stock Purchase Plan | 19,815 | 3 | 295 | | | | 298 |
| Repurchase and retirement of Common Stock | (74,684) | (12) | (911) | | | | (923) |
| Noncontrolling interest attributable to acquisition of majority owned subsidiary | | | | | | 448 | 448 |
| Comprehensive income: | | | | | | | |
| Net income (loss) for 2009 | | | | | 13,896 | (22) | 13,874 |
| Foreign currency translation adjustments | | | | (851) | | | (851) |
| Total comprehensive income | | | | | | | 13,023 |
| Balance, May 31, 2009 | 22,105,329 | 3,537 | 61,535 | (430) | 63,611 | 426 | 128,679 |

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Statements of Equity (cont.)**

(Dollars in thousands, except share amounts)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Exercise of options and warrants, net of share based compensation, including $709,000 income tax benefits | 500,242 | 80 | 7,687 | | | | 7,767 |
| Issuance of shares under Employee Stock Purchase Plan | 19,828 | 4 | 328 | | | | 332 |
| Comprehensive income: | | | | | | | |
| Net income (loss) for 2010 | | | | | 17,559 | (38) | 17,521 |
| Foreign currency translation adjustments | | | | (1,246) | | | (1,246) |
| Total comprehensive income | | | | | | | 16,275 |
| Balance, May 31, 2010 | 22,625,399 | $ 3,621 | $ 69,550 | $ (1,676) | $ 81,170 | $ 388 | $ 153,053 |

See accompanying notes to consolidated financial statements.

-F5-

Table of Contents

**Neogen Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**

(Dollars in thousands)

| | Year Ended May 31 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Cash Flows From Operating Activities | | | |
| Net income | $ 17,521 | $ 13,874 | $ 12,098 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | | |
| Depreciation and amortization | 4,435 | 3,890 | 3,516 |
| Deferred income taxes | (200) | 1,550 | 450 |
| Share based compensation | 2,237 | 1,967 | 1,892 |
| Excess income tax benefit from the exercise of stock options | (709) | (682) | (747) |
| Other | (207) | | 253 |
| Changes in operating assets and liabilities, net of business acquisitions: | | | |
| Accounts receivable | (2,240) | (4,075) | (3,869) |
| Inventories | 64 | (3,698) | (6,364) |
| Prepaid expenses and other current assets | 390 | (49) | (122) |
| Accounts payable | 3,008 | (2,648) | 1,666 |
| Accruals and other changes | 3,689 | 856 | (900) |
| Net Cash From Operating Activities | 27,988 | 10,985 | 7,873 |
| Cash Flows Used In Investing Activities | | | |
| Purchases of property, equipment and other noncurrent assets | (5,431) | (2,836) | (2,471) |
| Business acquisitions, net of cash acquired | (20,302) | (11,134) | (10,147) |
| Net Cash Used In Investing Activities | (25,733) | (13,970) | (12,618) |
| Cash Flows From Financing Activities | | | |
| Exercise of options | 5,900 | 2,916 | 5,060 |
| Repurchase of common stock | | (923) | |
| Excess income tax benefit from the exercise of stock options | 709 | 682 | 747 |
| Increase (Decrease) in other long-term liabilities | 100 | (118) | (216) |
| Net Cash From Financing Activities | 6,709 | 2,557 | 5,591 |
| Net Increase (Decrease) In Cash and Cash Equivalents | 8,964 | (428) | 846 |
| Cash And Cash Equivalents At Beginning Of Year | 13,842 | 14,270 | 13,424 |
| Cash And Cash Equivalents At End Of Year | $ 22,806 | $ 13,842 | $ 14,270 |
| Supplement Cash Flow Information | | | |
| Income taxes paid, net of refunds | $ 6,283 | $ 7,386 | $ 7,475 |

See accompanying notes to consolidated financial statements.

-F6-

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

1. Summary of Accounting Policies
Nature of Operations

Neogen Corporation develops, manufactures, and sells a diverse line of products dedicated to food safety testing and animal health applications.

Basis of Consolidation

The consolidated financial statements include the accounts of Neogen Corporation and its subsidiaries (collectively, the Company ), all of which are wholly owned, with the exception of Neogen Latinoamerica S.A.P.I. DE C.V., which is 60% owned and Neogen do Brazil, which is 98% owned. Noncontrolling interest represents the noncontrolling owner s proportionate share in the equity of the Company s majority owned subsidiaries. The noncontrolling owner s proportionate share in the income or losses of the Company s majority owned subsidiaries is included in other income, net in the statements of income.

All intercompany accounts and transactions have been eliminated in consolidation.

Share and per share amounts reflect the December 15, 2009 3 for 2 stock split as if it took place at the beginning of the periods presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ, from these estimates.

Comprehensive Income

Comprehensive income represents net income and any revenues, expenses, gains and losses that, under U.S. generally accepted accounting principles, are excluded from net income and recognized directly as a component of stockholders equity. Accumulated other comprehensive income (loss) consists solely of foreign currency translation adjustments.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. 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. One customer accounted for more than 10% of accounts receivable at May 31, 2010 and 2009. As of May 31, 2010 and 2009 the balance due from that customer was $2,608,000 or 10% and $2,879,000 or 12%, respectively of the total of all outstanding accounts receivables.

The Company maintains a valuation allowance for accounts receivable of $600,000 at May 31, 2010 and May 31, 2009. Expenses related to uncollectable accounts and allowance adjustments were $242,000, $199,000 and $54,000 in 2010, 2009 and 2008, respectively. Write-offs were $242,000, $99,000 and $54,000 in May 31, 2010, 2009 and 2008, respectively.

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, including accounts receivable, accounts payable, and accrued expenses approximate fair value based on either their short maturity or current terms for similar instruments.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand and savings deposits and short term domestic certificates of deposit with maturities of 90 days or less. Cash equivalents were $13,987,000 and $5,344,000 at May 31, 2010 and 2009, respectively. The carrying value of these assets approximates fair value.

Inventories

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

| | May 31 | |
|---|---|---|
| | **2010** | **2009** |
| Raw materials | $ 11,815,000 | $ 11,183,000 |
| Work-in-process | 1,958,000 | 1,425,000 |
| Finished and purchased finished goods | 17,543,000 | 18,755,000 |
| | $ 31,316,000 | $ 31,363,000 |

No less frequently than quarterly, inventory is analyzed for slow moving and obsolete inventory and the valuation allowance adjusted as required. Write offs against the allowance are not separately identified. The valuation allowance for inventory was $1,000,000, $1,025,000 and $700,000 at May 31, 2010, 2009 and 2008.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to thirty-nine years for buildings and improvements and three to five years for furniture, machinery and equipment. Depreciation expense was $2,734,000, $2,560,000, and $2,360,000 in 2010, 2009 and 2008, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. In general, goodwill is amortizable for tax purposes over 15 years. Other intangible assets include customer relationships, trademarks, licenses, trade names and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis over five to twenty years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually to determine if such assets may be impaired. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value. The remaining weighted-average amortization period for customer based intangibles and other intangibles is 13 and 10 years respectively at May 31, 2010.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

Long-lived Assets

Management reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in business conditions indicate that the carrying amount of the assets may not be recoverable. Impairment is first evaluated by comparing the carrying value of the long-lived assets to undiscounted future cash flows over the remaining useful life of the assets. If the undiscounted cash flows are less than the carrying value of the assets, the fair value of the long-lived assets is determined, and if lower than the carrying value, impairment is recognized.

Reclassifications

Certain amounts in the 2009 and 2008 financial statements have been reclassified to conform to the 2010 presentation.

Stock Options

At May 31, 2010, the Company had stock option plans that are described more fully in Note 5.

The weighted-average fair value per share of stock options granted during 2010, 2009 and 2008, estimated on the date of grant using the Black-Scholes option pricing model, was $6.35, $5.44 and $4.61 respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions:

| | Year ended May 31 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Risk-free interest rate | 2.0% | 2.9% | 4.6% |
| Expected dividend yield | 0% | 0% | 0% |
| Expected stock price volatility | 37.8% | 32.8% | 34.2% |
| Expected option life | 4.0 years | 4.0 years | 4.0 years |

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company s stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. The Company recognizes the cost of stock options using the accelerated method over their requisite service periods which the Company has determined to be the vesting periods.

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 generally is 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.

Shipping and Handling Costs

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as sales, while the related expenses incurred by the Company are recorded in sales and marketing expense and totaled $4,494,000, $4,266,000 and $3,888,000 in 2010, 2009 and 2008, respectively.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

No provision has been made for United States federal income taxes that may result from future remittances of the undistributed earnings of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. At May 31, 2010 unremitted earnings of the UK subsidiary were $5,032,000.

Research and Development Costs

Research and Development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred and totaled $633,000, $603,000 and $424,000 in 2010, 2009 and 2008, respectively.

Net Income Per Share

Basic net income per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding. The Company s dilutive potential common shares outstanding during the years result entirely from dilutive stock options and warrants. The following table presents the net income per share calculations:

| | Year ended May 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Numerator for basic and diluted net income per share - Net Income | $ 17,521,000 | $ 13,874,000 | $ 12,098,000 |
| Denominator - Denominator for basic net income per share weighted average shares | 22,425,000 | 22,003,000 | 21,711,000 |
| Effect of dilutive stock options and warrants | 666,000 | 584,000 | 788,000 |
| Denominator for diluted net income per share | 23,091,000 | 22,587,000 | 22,499,000 |
| Net income per share | | | |
| Basic | $ .78 | $ 0.63 | $ 0.56 |
| Diluted | $ .76 | $ 0.61 | $ 0.54 |

In 2009, 417,000 options were excluded from the computations of net income per share as the option prices exceeded the average market price of the common shares. No options were excluded in 2008 and 2010.

New Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standard ( FAS ) No. 168 - The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162 (codified in ASC 105). This standard establishes the Accounting Standards Codification ( ASC or Codification ) as the source of authoritative accounting principles recognized by FASB for all nongovernmental entities in the preparation of financial statements in accordance with GAAP. For SEC registrants, rules and interpretative releases of the SEC under federal securities laws are also considered authoritative sources of GAAP. The FASB will not issue new standards in the form of Statements, FASB Staff Positions ( FSP ) or Emerging Issues Task Force ( EITF ) Abstracts. Instead, it will issue Accounting Standard Updates ( ASUs ). ASUs will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on changes in the Codification. The provisions of this standard were effective for financial statements issued for interim and annual periods ending after

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

September 15, 2009. Accordingly, the Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP for this period ended November 30, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial results or financial position.

On June 1, 2009, the Company adopted ASC 805 Business Combinations (ASC 805). This standard intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. ASC 805 establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of the standard had no material impact on the Company s results of operations or financial position at the date of adoption.

ASC 810 Consolidation (ASC 810) requires all entities to report non-controlling (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 an entity and noncontrolling interests. The Company was required to adopt the provisions of both ASC 805 and ASC 810 simultaneously on June 1, 2009. The standards were adopted on June 1, 2009, and did not have a material impact on the Company s results of operations or financial position. The presentation and disclosure requirement were applied retrospectively.

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

2. Goodwill and Other Intangible Assets

The Company follows the provisions of ASC 350 Intangibles Goodwill and Other (ASC 350). ASC 350 prohibits the amortization of goodwill and intangible assets with indefinite lives and requires that the Company evaluate these intangibles for impairment on an annual basis. Management has completed the required annual impairment tests of goodwill and intangible assets with indefinite lives as prescribed by ASC 350 as of the first day of the fourth quarter of 2010 and determined that recorded amounts were not impaired and that no write-down was necessary.

The following table summarizes goodwill by business segment:

| | Food Safety | Animal Safety | Total |
|---|---|---|---|
| Balance, June 1, 2008 | $ 12,401,000 | $ 18,216,000 | $ 30,617,000 |
| Goodwill acquired | 114,000 | 8,986,000 | 9,100,000 |
| Balance, May 31, 2009 | 12,515,000 | 27,202,000 | 39,717,000 |
| Goodwill acquired | 4,037,000 | 9,145,000 | 13,182,000 |
| Balance, May 31, 2010 | $ 16,552,000 | $ 36,347,000 | $ 52,899,000 |

At May 31, 2010, non-amortizable intangible assets included licenses of $554,000, trademarks of $2,361,000 and a customer relationship intangible of $1,224,000. At May 31, 2009, non-amortizable intangible assets consisted of licenses of $554,000, trademarks of $1,952,000 and a customer relationship intangible of $1,224,000.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

Other amortizable intangible assets consisted of the following and are included in customer based intangible and other noncurrent assets within the consolidated balance sheets:

| | Gross Carrying Amount | Less Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Licenses | $ 1,505,000 | $ 575,000 | $ 930,000 |
| Covenants not to compete | 50,000 | 21,000 | 29,000 |
| Patents | 3,750,000 | 1,226,000 | 2,524,000 |
| Customer relationship intangibles | 17,023,000 | 4,002,000 | 13,021,000 |
| Balance, May 31, 2010 | $ 22,328,000 | $ 5,824,000 | $ 16,504,000 |
| Licenses | $ 1,225,000 | $ 583,000 | $ 642,000 |
| Covenants not to compete | 70,000 | 35,000 | 35,000 |
| Patents | 3,513,000 | 1,045,000 | 2,468,000 |
| Customer relationship intangibles | 9,004,000 | 2,861,000 | 6,143,000 |
| Balance, May 31, 2009 | $ 13,812,000 | $ 4,524,000 | $ 9,288,000 |

Amortization expense for other intangibles totaled $1,701,000, $1,330,000 and $1,156,000 in 2010, 2009 and 2008, respectively. The estimated amortization expense for each of the five succeeding years is as follows: $2,125,000 in 2011, $2,024,000 in 2012, $1,926,000 in 2013, $1,780,000 in 2014, and $1,631,000 in 2015. The other amortizable intangible assets useful lives are 5 to 20 years for licenses, 5 years for covenants not to compete, 5 to 17 years for patents, and 12 to 20 years for customer relationship intangibles. All definite lived intangibles are amortized on a straight line basis with the exception of definite lived customer based intangibles which are amortized on an accelerated basis.

3. Business Combinations

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the purchase method.

On August 24, 2007, Neogen Corporation purchased the net assets of Brandon, South Dakota based Kane Enterprises, Inc. Consideration for the purchase, including additional net current assets of $800,000, consisted of $6,600,000 of cash. The allocation of the purchase price consisted of $600,000 in accounts receivables, $1,775,000 in inventory, $55,000 in fixed assets, $4,350,000 in goodwill and other intangible assets (estimated useful lives of 5-15 years) and $180,000 in assumed liabilities. The acquisition has been integrated into the Lexington, Kentucky operations and is a strong synergistic fit with the Company s Animal Safety segment.

On December 3, 2007, Neogen Corporation purchased the net assets of Winnipeg, Manitoba based Rivard Instruments Inc. a manufacturer of veterinary instruments. Consideration for the purchase was cash of $3,469,000. The allocation of the purchase price consisted of $468,000 in inventory, $5,000 in fixed assets and $2,996,000 in goodwill and other intangible assets (estimated useful lives of 13-17 years). The acquisition has been integrated into the Lexington, Kentucky operations and is a strong synergistic fit with the Company s Animal Safety segment.

On June 3, 2008, Neogen Corporation formed a subsidiary in Mexico, Neogen Latinoamerica S.A.P.I. DE C.V. to acquire its former distributor. The new business is 40% owned by Neogen Corporation s former Mexican distributor in Mexico, with the remainder owned by Neogen. The new company will distribute the Company s food and animal safety products throughout Mexico. The consideration of $672,000 was allocated $462,000 to current assets, $30,000 to fixed assets and the remainder to intangible assets (estimated useful lives of 10 years).

On June 30, 2008, Neogen Corporation purchased a disinfectant business from DuPont Animal Health Solutions. The products of this business are used in animal health hygiene applications. Assets acquired include 14 different product formulations, associated registrations, patents, trademarks, and other intangibles (estimated useful lives of 5-15 years). As a part of the acquisition, the Company obtained the right to distribute certain other

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

related DuPont products in North America. DuPont will distribute certain of the newly acquired Neogen products in certain international markets. Consideration for the purchase was $7,000,000 and $5,193,000 was allocated to goodwill, $1,186,000 to customer based intangible and $621,000 to trademarks and patents. This acquisition has been integrated into the Lexington, Kentucky, operations and is expected to be a strong synergistic fit with Company s Animal Safety segment.

On May 4, 2009, Neogen Corporation acquired International Diagnostics Systems Corporation (IDS), a St. Joseph, Michigan based developer, manufacturer and marketer of test kits to detect drug residues in (IDS) food and animal feed, and drugs in forensic and animal samples. Consideration for the purchase was $3,955,000. The allocation included net current assets of $498,000, deferred tax liabilities of $400,000 and goodwill and intangible assets of $2,964,000 (estimated useful lives of 5-20 years) including customer related intangibles of $1,090,000. The acquisition is synergistic to Animal Safety products and has been integrated there with.

On December 1, 2009, the Company purchased the BioKits food safety business of Gen-Probe, Incorporated. Consideration for the purchase, approximated $6,500,000 in cash and the assumption of trade accounts payable of $175,000. The preliminary allocation of the purchase price included net current assets of $770,000, fixed assets $163,000 and the remainder to goodwill and other intangible assets. The acquired business will be integrated into Neogen s Food Safety segment. Principal products include synergistic allergen test kits.

On April 1, 2010, Neogen Corporation acquired GeneSeek, Inc. of Lincoln, Nebraska, a leading commercial agricultural genetic laboratory. GeneSeek s technology employs high-resolution DNA genotyping for identity and trait analysis in a variety of important animal and agricultural plant species. Consideration for the purchase was $13,800,000 in cash and secondary payment obligation of up to $7,000,000. Prelimary allocation of the purchase price included accounts receivable of $1,923,000, inventory of $1,212,000, fixed assets of $847,000, current liabilities of $600,000 deferred tax liabilities of $2,050,000 secondary payment related liabilities of $3,583,000 and other the remainder to goodwill and other intangible assets (with estimated lives of 5-20 years). The secondary payment was measured at fair value, which is considered a level 3 fair value measurement under ASC 820-Fair Value Measurement and Disclosure, as it was based on unobservable inputs and involves management s judgment. The acquisition will be integrated into the Animal Safety segment and is expected to be a strong synergistic fit.

4. Long-Term Debt

The Company has a financing agreement with a bank (nothing drawn at May 31, 2010 and 2009) providing for an unsecured revolving line of credit of $10,000,000 that matures on August 20, 2012. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.34% at May 31, 2010). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company is in compliance with at May 31, 2010.

5. Equity Compensation Plans

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of the Company under the terms of the Company s stock option plans at an exercise price of not less than the fair market value of the stock on the date of grant. Remaining shares available for grant under stock option plans were 687,000, 1,085,000 and 1,475,000 at May 31, 2010, 2009 and 2008, respectively. Options vest ratably over three and five year periods and the contractual terms are generally five years.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at June 1, 2007 (1,032,017 exercisable) | 2,270,552 | $ 7.40 |
| Granted | 584,634 | 13.69 |
| Exercised | (709,784) | 6.01 |
| Forfeited | (31,187) | 9.35 |
| Outstanding at May 31, 2008 (776,975 exercisable) | 2,114,215 | 9.57 |
| Granted | 417,000 | 18.11 |
| Exercised | (390,302) | 7.23 |
| Forfeited | (26,646) | 5.73 |
| Outstanding at May 31, 2009 (832,949 exercisable) | 2,114,267 | 11.67 |
| Granted | 426,382 | 19.60 |
| Exercised | (479,992) | 8.57 |
| Forfeited | (62,478) | 13.56 |
| Outstanding at May 31, 2010 (728,295 exercisable) | 1,998,179 | $ 14.14 |

The following is a summary of stock options outstanding at May 31, 2010:

| Range of Exercise price | | Options Outstanding Number | Average Remaining Contractual Life | Weighted-Average Exercise Price | Options Exercisable Number | Weighted Average Exercise Price |
|---|---|---|---|---|---|---|
| $ 2.45 | $ 4.94 | 15,753 | 1.53 | $ 4.24 | 15,753 | $ 4.24 |
| 4.95 | 9.09 | 628,131 | 2.39 | 8.52 | 420,308 | 8.38 |
| 9.10 | 16.72 | 548,857 | 3.35 | 13.82 | 214,779 | 13.90 |
| 16.73 | 20.33 | 805,438 | 3.91 | 18.93 | 77,455 | 18.19 |
| | | 1,998,179 | 3.26 | 14.14 | 728,295 | 10.96 |

The weighted-average exercise price of shares that were exercisable at May 31, 2009 and 2008 was $8.89 and $7.57, respectively. The weighted-average grant-date fair value of options granted in 2010, 2009, and 2008 was $6.35, $5.44 and $4.61 respectively.

The aggregate intrinsic value of options outstanding and options exercisable was $23,119,000 and $10,740,000 respectively, at May 31, 2010, $7,850,000 and $4,855,000 respectively, at May 31, 2009 and $16,879,000, and $7,762,000 respectively, at May 31, 2008. The aggregate intrinsic value of options exercised during the year was $6,554,000 in 2010 and $4,099,000 in 2009 and $6,783,000 in 2008. Remaining compensation cost to be expensed in future periods for non-vested options was $2,680,000 at May 31, 2010, with a weighted average expense recognition period of 2.2 years.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

The following table summarizes warrant activity with non-employees that are expensed at fair value upon grant. All warrants are exercisable for common stock of the Company and expire through 2012.

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding warrants at June1, 2007 | 121,220 | $ 7.05 |
| Warrants exercised during the year | (40,220) | 5.43 |
| Outstanding warrants at May 31, 2008 | 81,000 | 7.86 |
| Warrants exercised during the year | (23,625) | 7.22 |
| Warrants forfeited during the year | (5,625) | 6.75 |
| Outstanding warrants at May 31, 2009 | 51,750 | 8.40 |
| Warrants exercised during the year | (20,250) | 8.28 |
| Warrants forfeited during the year | (2,250) | 8.55 |
| Outstanding warrants at May 31, 2010 | 29,250 | $ 8.48 |

Common stock totaling 90,860 of the 225,000 originally authorized shares are reserved for issuance under the terms of the 2002 Employee Stock Purchase Plan. The plan gives eligible employees the option to purchase common stock (total purchases in any year are limited to 10% of compensation) at 95% of the lower of the market value of the stock at the beginning or end of each participation period. Shares purchased by employees were 19,828, 19,815 and 21,767 in 2010, 2009 and 2008, respectively.

6. Income Taxes

The provision for income taxes consisted of the following:

| | Year ended May 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Current: | | | |
| U.S. Taxes | $ 8,850,000 | $ 5,700,000 | $ 5,550,000 |
| Foreign | 450,000 | 500,000 | 400,000 |
| Deferred | (200,000) | 1,550,000 | 450,000 |
| | $ 9,800,000 | $ 7,750,000 | $ 6,400,000 |

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred income tax liabilities and assets are as follows:

| | May 31, 2010 | 2009 |
|---|---|---|

| | | |
|---|---|---|
| Deferred income tax liabilities | | |
| Indefinite and long-lived assets | $ (7,479,000) | $ (4,079,000) |
| Prepaids | (454,000) | (229,000) |
| Other | (151,000) | (451,000) |
| | (8,084,000) | (4,759,000) |
| Deferred income tax assets | | |
| Inventories and accounts receivable | 1,244,000 | 844,000 |
| Acquired net operating loss carry forwards | 429,000 | 229,000 |
| Accrued liabilities and other | 1,361,000 | 1,161,000 |
| | 3,034,000 | 2,234,000 |
| Net deferred income tax liabilities | $ (5,050,000) | $ (2,525,000) |

-F15-

**Table of Contents**

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

The acquired net operating loss carry forwards resulted in a deferred tax asset of $429,000, of which $100,000 will expire in 2011 and $329,000 will expire in 2019.

The reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense is as follows:

| | Year ended May 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Tax at U.S. statutory rates | $ 9,600,000 | $ 7,600,000 | $ 6,374,000 |
| Tax credits and other | (25,000) | (180,000) | (194,000) |
| Provisions for state income taxes, net of federal benefit | 225,000 | 330,000 | 220,000 |
| | $ 9,800,000 | $ 7,750,000 | $ 6,400,000 |

The Company has no significant accrual for unrecognized tax benefits at May 31, 2010. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts. For the majority of tax jurisdictions, the Company is no longer subject to U.S. Federal, State and local or non U.S. income tax examinations by tax authorities for fiscal years before 2006.

7. Commitments and Contingencies

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company is currently expensing annual costs of remediation of approximately $90,000. The Company s estimated liability for this expense of $916,000 at May 31, 2010 is recorded within other long term liabilities in the consolidated balance sheet.

The Company has agreements with unrelated third parties that provide for the payment of royalties on the sale of certain products. Royalty expense under the terms of these agreements was $1,337,000, $1,184,000 and $1,231,000 for 2010, 2009 and 2008, respectively.

The Company leases office and manufacturing facilities under noncancelable operating leases. Rent expense for 2010, 2009 and 2008 was $428,000, $336,000 and $326,000, respectively. Future minimum rental payments for these leases over the remaining terms are as follows: 2011 - $ 313,000; 2012 - $ 265,000; and 2013 - $87,000.

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

8. Defined Contribution Benefit Plan

The Company maintains a defined contribution 401(k) benefit plan covering substantially all employees. Employees are permitted to defer up to IRS limits, with the Company matching 100% of the first 3% deferred and 50% of the next 2% deferred. The Company s expense under this plan was $622,000, $542,000 and $476,000 in 2010, 2009 and 2008, respectively.

9. Segment Information

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

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

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 total sales and operating income of the respective segments. The accounting policies of the segments are the same as those described in Note 1.

Segment information is as follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| 2010 | | | | |
| Net sales to external customers | $ 76,454,000 | $ 64,055,000 | $ | $ 140,509,000 |
| Operating income (loss) | 21,103,000 | 7,801,000 | (2,025,000) | 26,879,000 |
| Depreciation and amortization | 2,924,000 | 1,511,000 | | 4,435,000 |
| Interest income | | | 81,000 | 81,000 |
| Income taxes (benefit) | 7,570,000 | 2,798,000 | (568,000) | 9,800,000 |
| Total assets | 74,583,000 | 87,894,000 | 17,756,000 | 180,233,000 |
| Expenditures for long-lived assets | 4,364,000 | 1,067,000 | | 5,431,000 |
| 2009 | | | | |
| Net sales to external customers | 61,025,000 | 57,696,000 | | 118,721,000 |
| Operating income (loss) | 14,943,000 | 6,786,000 | (1,241,000) | 20,488,000 |
| Depreciation and amortization | 2,717,000 | 1,173,000 | | 3,890,000 |
| Interest income | | | 248,000 | 248,000 |
| Income taxes (benefit) | 5,356,000 | 2,432,000 | (38,000) | 7,750,000 |
| Total assets | 61,322,000 | 69,559,000 | 11,295,000 | 142,176,000 |
| Expenditures for long-lived assets | 1,882,000 | 954,000 | | 2,836,000 |
| 2008 | | | | |
| Net sales to external customers | 57,664,000 | 44,754,000 | | 102,418,000 |
| Operating income (loss) | 14,245,000 | 4,972,000 | (1,198.000) | 18,019,000 |
| Depreciation and amortization | 2,495,000 | 1,021,000 | | 3,516,000 |
| Interest income | | | 442,000 | 442,000 |
| Income taxes (benefit) | 5,060,000 | 1,766,000 | (426,000) | 6,400,000 |
| Total assets | 60,951,000 | 52,236,000 | 13,170,000 | 126,357,000 |
| Expenditures for long-lived assets | 1,850,000 | 621,000 | | 2,471,000 |

(1) Includes corporate assets, including cash and cash equivalents and current and deferred tax accounts, and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions and noncontrolling interests.

Sales to customers located outside the United States amounted to $56,031,000 or 40% of consolidated sales in 2010, $48,678,000 or 41% in 2009 and $39,333,000 or 38% in 2008 and were derived primarily in the geographic areas of Europe, Canada, South and Central America, and Asia. Revenues from one Food Safety distributor customer were 10.3% in 2010 and 9.8% in 2009 of total revenues. No other customer represented revenues in excess of 10% of consolidated net sales. The United States based operations represent 89% of the Company s long-lived assets as of May 31, 2010 and 2009.

Table of Contents

**Neogen Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

10. Stock Repurchase

In December 2008, the Company s Board of Directors rescinded an existing program and authorized a new program to purchase, subject to market conditions, up to 750,000 shares of the Company s common stock. As of May 31, 2010, 74,684 cumulative shares have been purchased in negotiated and open market transactions for a total price, including commissions, of approximately $923,000. There were no purchases in 2010 or 2008. Shares purchased under the program were retired.

11. Summary of Quarterly Data (Unaudited)

| | Quarter Ended | | | |
|---|---|---|---|---|
| | August 2009 | November 2009 | February 2010 | May 2010 |
| | (In thousands, except per share data) | | | |
| Net sales | $ 32,347 | $ 35,251 | $ 33,833 | $ 39,078 |
| Gross margin | 17,270 | 18,522 | 17,461 | 19,722 |
| Net income | 4,395 | 4,610 | 3,881 | 4,635 |
| Basic net income per share | .20 | .21 | .17 | .20 |
| Diluted net income per share | .19 | .20 | .17 | .20 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | August 2008 | November 2008 | February 2009 | May 2009 |
| | (In thousand, except per share data) | | | |
| Net sales | $ 28,805 | $ 31,187 | $ 27,840 | $ 30,889 |
| Gross Margin | 14,804 | 16,125 | 13,027 | 15,477 |
| Net income | 3,733 | 3,901 | 2,823 | 3,417 |
| Basic net income per share | .17 | .18 | .13 | .15 |
| Diluted net income per share | .17 | .17 | .13 | .14 |

Quarterly net income per share is based on weighted-average shares outstanding and potentially dilutive stock options and warrants for the specific period, and as a result, will not necessarily aggregate to total net income per share as computed for the year as disclosed in the consolidated statements of income.