NEOGEN CORP
Form 10-Q
October 10, 2008
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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 August 31, 2008

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	***(IRS Employer***
incorporation or organization)	***Identification Number)***

620 Lesher Place

Lansing, Michigan 48912

(Address of principal executive offices, including zip code)

(517) 372-9200

(Registrant s telephone number, including area code)

N/A

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 October 1, 2008, there were 14,581,000 shares of Common Stock outstanding.

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NEOGEN CORPORATION AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. Interim Consolidated Financial Statements (Unaudited)

NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	August 31, 2008	May 31, 2008
	(In thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,654	$ 14,270
Accounts receivable, less allowance of $500	21,480	19,384
Inventories	29,955	27,799
Deferred income taxes	1,225	1,225
Prepaid expenses and other current assets	2,690	2,953
TOTAL CURRENT ASSETS	65,004	65,631
NET PROPERTY AND EQUIPMENT	16,756	16,889
OTHER ASSETS		
Goodwill	38,364	30,617
Other non-amortizable intangible assets	3,435	3,435
Customer based intangibles, net of accumulated amortization of $2,089 and $1,988	5,540	6,139
Other non-current assets, net of accumulated amortization of $1,484 and $1,373	3,972	3,646
	51,311	43,837
	$ 133,071	$ 126,357
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 6,822	$ 6,505
Accrued compensation	1,801	2,025
Income taxes	2,444	302
Other accruals	1,777	2,304
TOTAL CURRENT LIABILITIES	12,844	11,136
DEFERRED INCOME TAXES	2,329	2,329
OTHER LONG-TERM LIABILITIES	1,626	1,644
TOTAL LIABILITIES	16,799	15,109
STOCKHOLDERS EQUITY		
Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding		
Common stock, $.16 par value, 30,000,000 shares authorized, 14,581,235 shares issued and outstanding at August 31, 2008; 14,518,277 shares issued and outstanding at May 31, 2008	2,333	2,323
Additional paid-in capital	59,951	58,789

Accumulated other comprehensive income	540	421
Retained earnings	53,448	49,715
TOTAL STOCKHOLDERS EQUITY	116,272	111,248
	$ 133,071	$ 126,357

See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended August 31, 2008	2007
	(In thousands, except per share amounts)	
Net sales	$ 28,805	$ 22,909
Cost of goods sold	14,001	10,612
GROSS MARGIN	14,804	12,297
OPERATING EXPENSES		
Sales and marketing	5,619	4,678
General and administrative	2,580	2,330
Research and development	952	742
	9,151	7,750
OPERATING INCOME	5,653	4,547
OTHER INCOME		
Interest income	65	170
Other income (expense)	140	(6)
	205	164
INCOME BEFORE INCOME TAXES	5,858	4,711
INCOME TAXES	2,125	1,700
NET INCOME	$ 3,733	$ 3,011
NET INCOME PER SHARE		
Basic	$ .26	$ .21
Diluted	$ .25	$ .21

See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

	Common Stock		Additional Paid-in Capital	Minority Interest and Other(1)	Retained Earnings	Total
	Shares	Amount				
			(In thousands)			
Balance, June 1, 2008	14,518,277	$ 2,323	$ 58,789	$ 421	$ 49,715	$ 111,248
Issuance of shares common stock under equity compensation plans, including $119,000 of excess income tax benefit	57,576	9	1,154			1,163
Issuance of shares under employee stock purchase plan	5,382	1	8			9
Minority interest in Mexican Subsidiary				448		448
Comprehensive income:						
Net income for the three months ended August 31, 2008					3,733	3,733
Foreign currency translation adjustments				(329)		(329)
Total comprehensive income ($3,084 in the three months ended August 31, 2007)						3,404
Balance, August 31, 2008	14,581,235	$ 2,333	$ 59,951	$ 540	$ 53,448	$ 116,272

(1) Other represents accumulated other comprehensive income and minority interest.

See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended August 31, 2008	Three Months Ended August 31, 2007
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,733	$ 3,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	948	818
Share based compensation	474	408
Income tax benefit from stock plan transactions	(119)	(74)
Other	(329)	27
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,917)	(2,328)
Inventories	(1,936)	(1,329)
Prepaid expenses and other current assets	296	221
Accounts payable and accruals	1,685	(1,034)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,835	(280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(578)	(564)
Payments for business acquisitions	(7,672)	(6,601)
NET CASH USED IN INVESTING ACTIVITIES	(8,250)	(7,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reductions of other long-term liabilities	(18)	(22)
Net proceeds from issuance of common stock	698	755
Excess income tax benefit from the exercise of stock options	119	74
NET CASH PROVIDED BY FINANCING ACTIVITIES	799	807
DECREASE IN CASH	(4,616)	(6,638)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,270	13,424
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,654	$ 6,786

See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on June 1, 2007. The adoption of FIN 48 had no significant affect on the financial statements. The Company has no significant accrual for unrecognized tax benefits at August 31, 2008. Should the accrual of any interest of penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts. For the majority of tax jurisdictions, the Company is no longer subject to U.S. Federal, State and local or non U.S. income tax examinations by tax authorities for fiscal years before 2006.

2. INVENTORIES

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

	August 31, 2008	May 31, 2008
	(In thousands)	
Raw materials	$ 12,446	$ 10,278
Work-in-process	701	598
Purchased finished and finished goods	16,808	16,923
	$ 29,955	$ 27,799

3. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended August 31,	
	2008	2007
	(In thousands except per share amounts)	
Numerator for basic and diluted net income per share:		
Net income	$ 3,733	$ 3,011
Denominator:		
Denominator for basic net income per share-weighted average shares	14,542	14,052
Effect of dilutive stock options and warrants	489	522
Denominator for diluted net income per share	15,031	14,574
Net income per share:		

Basic	$	.26	$	.21
Diluted	$	.25	$	.21

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4. STOCK REPURCHASE

The Company s Board of Directors has authorized the purchase of up to 1,250,000 shares of the Company s Common Stock. As of August 31, 2008, the Company has cumulatively purchased 893,000 shares in negotiated and open market transactions. No shares were purchased in the first three months of fiscal year 2009 or 2008. Shares purchased under this buy-back program were retired.

5. SEGMENT INFORMATION

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

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

Segment information as of and for the three months ended August 31, 2008 and 2007 follows:

	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
		(In thousands)		
Fiscal 2009				
Net sales to external customers	$ 15,549	$ 13,256	$	$ 28,805
Operating income (reduction)	3,997	1,905	(249)	5,653
Total assets	$ 62,982	$ 61,539	$ 8,550	$ 133,071
Fiscal 2008				
Net sales to external customers	$ 13,759	$ 9,150	$	$ 22,909
Operating income (reduction)	3,931	851	(235)	4,547
Total assets	$ 59,095	$ 46,173	$ 3,566	$ 108,834

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

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6. EQUITY COMPENSATION PLANS

Options are generally granted under the employee and director stock option plan for 5 years and become exercisable in varying installments. Certain non-qualified options are granted for 10 year periods. A summary of stock option activity during the three months ended August 31, 2008 follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at June 1, 2008	1,409,477	$ 14.36
Granted	264,000	27.28
Exercised	56,492	10.62
Options outstanding at August 31, 2008	1,616,985	16.60

Options outstanding at August 31, 2008 had a weighted-average remaining contractual term of 4.0 years. At August 31, 2008, the aggregate intrinsic values of options outstanding and options exercisable were $15,306,000 and $7,187,000, respectively. The aggregate intrinsic value of options exercised during the three-month periods ended August 31, 2008 and 2007 was $951,000 and $1,619,000, respectively. The 1997 Stock Option Plan expired August 14, 2007. Exercise prices for options outstanding as of August 31, 2008 ranged from $3.33 to $27.28. At August 31, 2008 there was $3,740,000 of unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 3.0 years. During the three months ended August 31, 2008 and 2007 the Company recorded $474,000 and $408,000 compensation expense related to its share-based awards.

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

The grant date fair value of options granted during the three months ended August 31, 2008 using the Black-Scholes option pricing model was $8.22 and was estimated using the following weighted-average assumptions:

Risk-free interest rate	2.9%
Expected dividend yield	0%
Expected stock price volatility	32.8%
Expected option life	4.0 years

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

The Company has 49,500 outstanding warrants that are exercisable for common stock. The warrants have lives of 5 years and were expensed at fair value upon issuance.

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

7. NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 141 Business Combinations (revised 2007) (SFAS 141(R)) is effective for the Company for business combinations closed on or after June 1, 2009. The revision is intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 160

Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. (SFAS 160) was also issued, and is effective for the company on June 1, 2009.

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SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Its intention is to eliminate the diversity in practice regarding the accounting for transactions between and entity and noncontrolling interests.

The Company is currently evaluating the provisions of these pronouncements, however it expects the potential impact on its consolidated financial statements will be minimal.

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

8. LEGAL PROCEEDINGS

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

9. BUSINESS AND PRODUCT LINE ACQUISITIONS

On August 24, 2007, Neogen Corporation purchased the operating assets of Brandon, South Dakota based Kane Enterprises, Inc. Consideration for the purchase, including additional net current assets of $800,000 and subject to certain post closing adjustments, consisted of $6,600,000 of cash. The preliminary allocation of the purchase price consisted of $600,000 in accounts receivables, $1,775,000 in inventory, $55,000 in fixed assets, $4,350,000 in goodwill and other intangible assets and $180,000 in assumed liabilities.

On December 3, 2007, Neogen Corporation purchased the assets of Winnipeg, Manitoba based Rivard Instruments Inc. Assets acquired consisted of inventory, equipment and intangibles.

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

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

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

10. LONG TERM DEBT

The Company maintains a financing agreement with a bank (no amounts drawn at August 31, 2008 or May 31, 2008) providing for an unsecured revolving line of credit of $10,000,000. The interest rate is LIBOR plus 95 basis points (rate under terms of the agreement was 3.42% at August 31, 2008) or prime less 100 basis points (4.00% at August 31, 2008) at the Company s option. Financial covenants include maintaining specified funded debt to EBITDA and debt service ratios as well as specified levels of tangible net worth, all of which are complied with at August 31, 2008.

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11. Fair Value Measurements

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

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

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

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

The following table summarizes the valuation of the Company s financial instruments by the above pricing categories as of August 31, 2008 (in thousands):

	Total	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 9,654	$ 9,654		
	$ 9,654	$ 9,654		
Liabilities:	$	$	$	$
	$	$	$	$

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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 and intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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Revenue Recognition

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

Accounts Receivable Allowance

Management attempts to minimize credit risk by reviewing customers credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information, such as changes in overall changes in customer credit and general credit conditions. Actual collections can differ from historical experience, and if economic or business conditions deteriorate significantly, adjustments to these reserves could be required.

Inventory

A reserve for obsolescence is established based on an analysis of the inventory taking into account the current condition of the asset as well as other known facts and future plans. The amount of reserve required to record inventory at lower of cost or market may be adjusted as condition s change. Product obsolescence may be caused by shelf life expiration, discontinuation of a product line, or replacement products in the market place or other competitive situations.

Valuation of Intangible Assets and Goodwill

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

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

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

Equity Compensation Plans

Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment , (SFAS 123(R)) addresses the accounting for share-based employee compensation. Further information on the Company s equity compensation plans, including inputs used to determine fair value of options is disclosed in Note 6 to the consolidated financial statements. SFAS 123(R) requires that share options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company s stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model using assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

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To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied is able to handle some of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values would differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the ones produced by the model applied and the inputs used.

New Accounting Pronouncements

See note 7 to Interim Consolidated Financial Statements.

RESULTS OF OPERATIONS

Executive Overview

Neogen Corporation revenues increased by 26% in the first quarter of FY-09 to $28.8 million as compared to $22.9 million in the first quarter of FY-08. Food Safety sales increased by 13% and Animal Safety sales increased by 45% in comparison with the first quarter of the prior year. Overall animal safety sales were aided by the Rivard, Kane and DuPont acquisitions. Both segments reported a 13% increase in organic revenue. Sales to the international markets reached 42% of total revenues for the first time ever with strong contributions from Neogen s European subsidiary. Gross margins decreased from 54% to 51% and operating margins remained at 20%. The decline in gross margins was a result of a change in product mix with a greater proportion of revenues from non-diagnostic products in the quarter including products obtained in the Kane and DuPont acquisitions.

Three Months Ended August 31, 2008 Compared to Three Months Ended August 31, 2007

	Three Months Ended August 31			
	2008	2007	Increase (Decrease)	%
	(Dollars in thousands)			
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 8,038	$ 7,102	$ 936	13.2
Bacteria & General Sanitation	4,551	4,267	284	6.7
Dehydrated Culture Media & Other	2,960	2,390	570	23.8
	15,549	13,759	1,790	13.0
Animal Safety				
Life Sciences & Equine Vaccines	1,837	1,803	34	1.9
Rodenticides & Disinfectants	4,874	2,820	2,054	72.8
Veterinary Instruments & Other	6,545	4,527	2,018	44.6
	13,256	9,150	4,106	44.9
Total Sales	$ 28,805	$ 22,909	$ 5,896	25.7

During the first quarter of FY-09, Food Safety revenues increased 13% in comparison with FY-08. Natural Toxin, Allergen and Drug Residue sales increased by 13%, in comparison with the prior year. Diagnostic tests for natural toxins increased by 12% led by increases in sales of test kits for aflatoxin, DON and histamine. Diagnostic test kits for food allergens increased by 48% with growth in sales of test kits for milk, peanut and egg allergens particularly strong. Sales of diagnostic products for bacteria and general sanitation increased 7% in comparison with FY-08 as Neogen s tests to detect harmful pathogens like E.coli, Salmonella and Listeria were up 14% in comparison with the prior year. Sales of dehydrated culture media and other products increased by 24% over the prior year.

During the first quarter of FY-09, Animal Safety revenues increased by 45% overall in comparison with FY-08. Life sciences and vaccine sales contributed by increasing 2% in comparison with the prior year. Products going to life science markets increased 6% while vaccine sales decreased by 9% in FY-09 in comparison with FY-08, due to the timing of large distributor orders. Rodenticide and Disinfectant Sales increased by 73% in comparison with FY-08 following the June acquisition of DuPont cleaners and disinfectants business. Rodenticide sales to domestic customers in the first quarter of FY-09 increased by 14%, as compared to the first quarter of FY-08. Veterinary instrument and other sales increased by 45% in comparison with the prior year and was helped by the sales of products acquired in the Rivard and Kane acquisitions.

Gross margins decreased from 53.7% in the first quarter of FY-08 to 51.4% in FY-09. This resulted from a change in product mix, principally emanating from the Kane and DuPont acquisitions. Operating margins in the first quarter decreased from 19.8% to 19.6% of sales in FY-09 as compared with FY-08. Sales and marketing expenses as expressed as a percentage of revenues decreased from 20.4% to 19.5%. General and administrative expenses decreased from 10.2% of revenues in FY-08 to 9.0% of revenues in FY-09. The decrease in sales and marketing and general and administrative expenses as a percentage of revenues is the direct effect of the acquisitions during the year that contributed revenue dollars without commensurate increase in distribution or administrative cost. Research expense, growing $210,000 in absolute dollars, increased as a percent of revenues from 3.2% to 3.3%. As a result of increased research and development efforts, management expects this expense as a percentage of revenues to increase during the year.

Financial Condition and Liquidity

Net cash proceeds of $1,172,000 were realized with the exercise of 63,000 stock options and issuance of shares under the Employee Stock Purchase Plan during the first quarter of FY-09. While accounts receivable and inventories grew to accommodate increases in operations, $2,835,000 in cash was generated from operations. Inflation and changing prices are not expected to have a material effect on operations, as the management believes it has and will be successful in offsetting increased input cost with price increases.

Management believes that the Company s existing cash balances at August 31, 2008, 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 be required to issue equity securities or enter into other financing arrangements for a portion of the Company s future financing needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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ITEM 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

An evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of August 31, 2008 was carried out under the supervision and with the participation of the Company s management, including the Chairman & Chief Executive Officer and the Vice President & Chief Financial Officer (the Certifying Officers). Based on that evaluation, the Certifying Officers concluded that the Company s disclosure controls and procedures are effective to bring to the attention of the Company s management the relevant information necessary to permit an assessment of the need to disclose material developments and risks pertaining to the Company s business in its periodic filings with the Securities and Exchange Commission. There was no change to the Company s internal control over financial reporting during the three months ended August 31, 2008 that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. Other Information

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 6. EXHIBITS

(a) Exhibit Index

31.1 Certification of Chief Executive Officer pursuant to Rule 13a 14 (a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13 a 14 (a).

32 Certification pursuant to 18 U.S.C. sections 1350.

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SIGNATURES

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

NEOGEN CORPORATION
(Registrant)

Dated: October 10, 2008

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

Dated: October 10, 2008

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