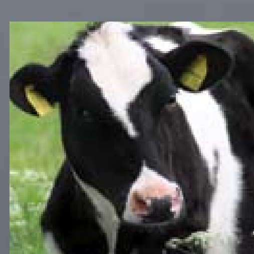
2007 Annual Report

25 years

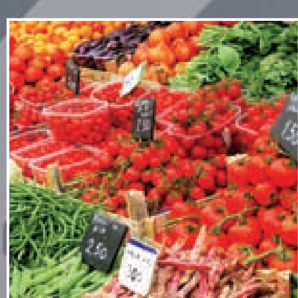
NEOGEN®

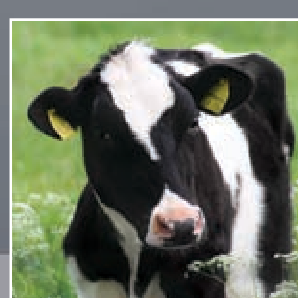
CORPORATION



Dedicated to Food and Animal Safety Since 1982

The mission of Neogen Corporation is to be the dominant company in the development and marketing of solutions for food and animal safety



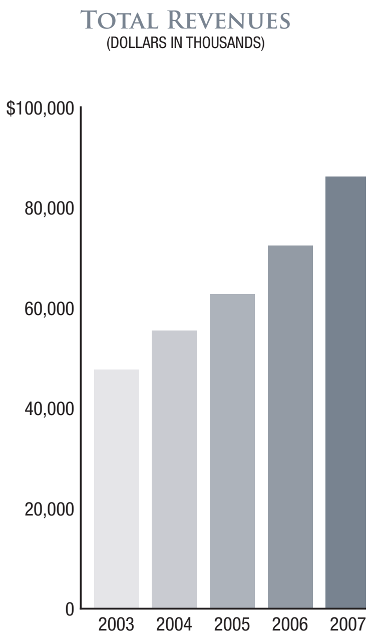


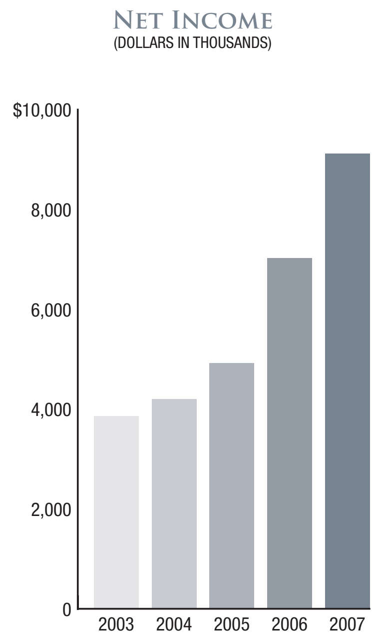
Contents

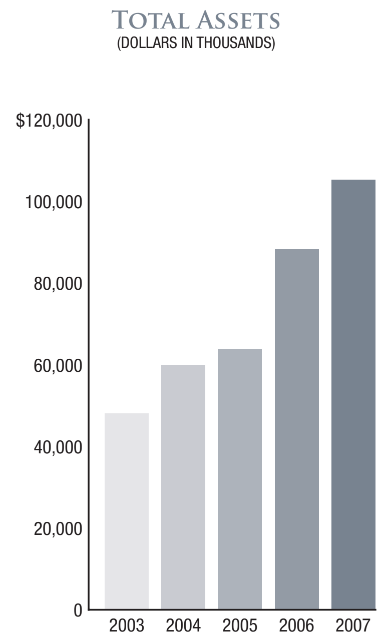
Amounts in thousands, except per share

Years Ended May 31,	**2007**	2006	2005	2004	2003
Operations:					
Total Revenues	**$ 86,138**	$ 72,433	$ 62,756	$ 55,498	$ 47,685
Food Safety Sales	**46,956**	34,951	28,156	27,567	26,476
Animal Safety Sales	**39,182**	37,482	34,600	27,931	21,209
Operating Income*	**13,504**	10,805	7,452	6,144	5,666
Net Income*	**$ 9,125**	$ 7,029	$ 4,929	$ 4,202	$ 3,868
Basic Net Income Per Share*	**$ .99**	$ .85	$ .61	$ .53	$ .51
Diluted Net Income Per Share*	**$ .97**	$ .83	$ .59	$ .51	$ .50
Average Diluted Shares Outstanding*	**9,441**	8,457	8,354	8,233	7,803

*Restated for the years 2003-2006







In thousands

May 31,	**2007**	2006	2005	2004	2003
Financial Strength:					
Cash and Cash Equivalents	**$ 13,424**	$ 1,959	$ 1,972	$ 1,696	$ 8,897
Working Capital	**41,060**	26,252	22,644	20,619	22,208
Total Assets	**105,284**	88,290	63,884	59,975	48,036
Long-Term Debt	**-**	9,955	-	3,900	-
Stockholders' Equity*	**91,945**	65,424	56,623	50,617	45,408

*Restated for the years 2003-2006

To Our Stockholders, Employees, and Friends,

President and COO Lon Bohannon, and Chairman and CEO James Herbert

In June, Neogen celebrated its 25th birthday. Although 1982 doesn't seem that long ago, the changes to the food and animal industries, and our company, have been almost revolutionary.

When we announced to the world our mission of building a company based upon providing solutions for food and animal safety, few could understand the mission's importance. New biotechnology discoveries were just emerging, and few understood their potential impact.

Twenty-five years ago, most people were unaware that natural toxins in grains could cause cancer. Most were not concerned about a little antibiotic residue in milk. Many still ate hamburgers medium rare because they had never heard of *E. coli* O157:H7 and a "mad" cow was one that wanted the taller grass on the other side of the fence.

Our early shareholders, management, and long-term employees all take pride that our mission and business strategy has now resulted in Neogen's outstanding worldwide reputation.

While it is fun to reminisce, it is more enjoyable to celebrate the present and contemplate Neogen's unlimited future potential. Revenues for our 2007 fiscal year (FY '07) were approximately $86.1 million, up 19%. Our fourth quarter was the 61st in the last 66 when we recorded revenue increases compared to the prior year.

For FY '07, the company enjoyed a 30% increase in net income, finishing the year with approximately $9.1 million. This equates to $0.97 per share, as compared to $0.83 in FY '06.

Balance Sheet Strong

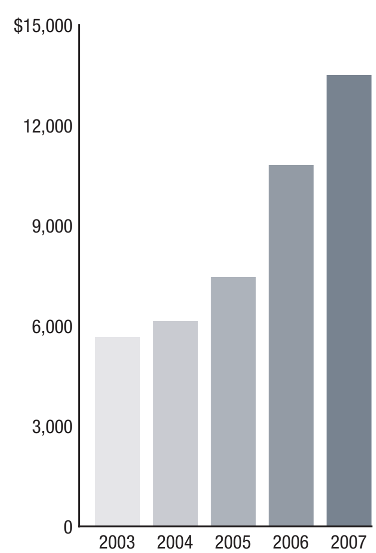
Neogen generated approximately $10.2 million in cash from operations in FY '07. This, combined with a stock sale last summer, allowed us to pay off all debt and end the year with approximately $13.4 million in cash. Neogen also continued its solid growth in shareholder value as shareholder equity increased by over 40%.

International Growth Continues

One of our important growth metrics is the increase in our international business. We estimate that our products' international markets are about twice our domestic markets. In FY '07, 38% of our revenues were from approximately 100 countries outside the U.S., as compared to 29% and 27% in the prior two years.

Our Scotland-based Neogen Europe subsidiary has been a significant factor in this international growth, increasing approximately 26% in FY '07. Neogen Europe received the prestigious Queen's Award for its international growth, and also received the Annual U.S. British Consulate Award for firms that significantly contribute to furthering commerce between the U.K. and U.S. Our Scottish base helps us stay better attuned to the rapidly changing E.U. regulations, and their impact on companies exporting products to Europe.

Operating Income
(DOLLARS IN THOUSANDS)



Both Divisions Solid

Neogen manages its business as two divisions – Food Safety and Animal Safety. However, the distinction is often blurred as a significant portion of Animal Safety is simply Food Safety back inside the farm gate.

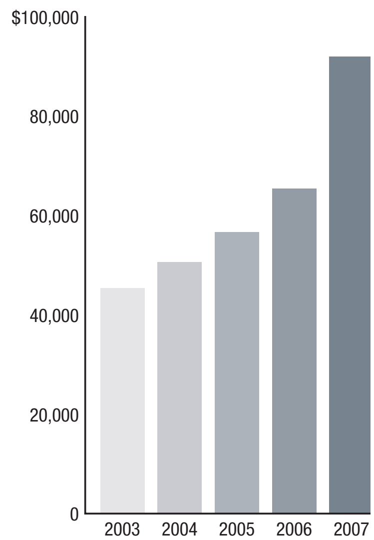
The Animal Safety group struggled with revenue growth at the beginning of the year, but recovered nicely to record a 12% sales increase in the fourth quarter and overall sales growth of 5% for the year.

The Animal Safety group is a player in the huge worldwide animal health market, but continues to focus on profitable niche markets. For example, our FY '07 revenues from drug residue tests were up solidly. Veterinary instruments sales increased approximately 10%. The division's best performance came from specialty veterinary instruments and needles. Neogen is the leading supplier of unique, highly detectable needles widely used in the pork industry to ensure broken needles don't reach the dinner table. Neogen also has a close partnership with several large animal health firms to supply specialty vaccine delivery instruments.

Food Safety Growth Outstanding

Neogen's Food Safety Division recorded an outstanding 35% sales increase in FY '07. A portion of the increase was due to acquired products, but the division turned in double-digit organic growth each quarter. Our sales of diagnostics to detect antibiotic residues in milk continued to increase worldwide. Since moving that business to the U.S. from Spain, we have produced over six million dairy antibiotic tests—enough to ensure the safety of about 50 billion gallons of milk worldwide.

Stockholders' Equity
(DOLLARS IN THOUSANDS)



Continued Efficiency Improvement

Neogen continues to invest in facilities and equipment to help drive increases in operating profit. For the past year, operating profits showed an increase of 25%, and we believe last year's investments will benefit future years as well.

During 2007, we relocated Centrus® operations we acquired from Eastman Chemical to Lansing. We are also in the process of moving Neogen's vaccine production from the leased facility in Tampa, Fla., to larger and more efficient facilities in Lansing. Near the end of '07, we installed automated equipment that allows us to produce as many AccuPoint disposable samplers in a normal one-shift, five-day work week as we had produced with three shifts working six days per week.

Product Breadth Grows

The breadth of food safety concerns has grown in recent years, and Neogen has continued to add products to meet industry needs. Neogen was among the first to develop diagnostic tests for natural toxins, and these products continued to grow in FY '07. The same is true for tests for pathogenic bacteria, which have expanded to include such foods as fresh-cut fruits and vegetables.

Neogen was the first to develop rapid tests for the detection of food allergens, another product line that experienced solid growth in FY '07. We also continue to expand our tests to detect drug residues in food animals as the concern gains more worldwide attention.

One of our fastest growing areas recently has been tests to monitor general sanitation. Our AccuPoint® product line provides food processors, food service establishments, and beverage companies an almost instant method to monitor general sanitation in processing equipment and water supplies. This product line showed a 40% increase in FY '07.

R&D is Significant

In FY '07, Neogen made several moves to strengthen its R&D activities and product improvement efforts. These expenses were up approximately 10% primarily as a result of increased staffing.

During the year, we acquired a 55,000 square-foot facility at our Michigan campus that now houses our Center for Microbiological Excellence. We consolidated all R&D activities related to our dehydrated culture media products, rapid pathogen tests, and the new Soleris™ product line that detects spoilage organisms. This research staff will unite in a coordinated effort to expand Neogen's competitive position in microbiological solutions, and better utilize resources to develop new diagnostic products for producers of food animals. Separate R&D staffs are located in Lexington, Ky.; Ayr, Scotland; Randolph, Wisc.; and Lansing, Mich.

Future is Bright

Neogen's future has perhaps never been brighter, and we are in a solid position to capitalize on our opportunities. The concern for safer food has never been greater. In part, this is due to the U.S. now importing about 13% of its food, and this percentage is growing—as is the demand for more testing at the point of origin.

During FY '07, Neogen did not make any acquisitions, focusing instead on the integration of earlier acquisitions and investments to improve operating efficiencies. However, we will be exploring acquisition opportunities in FY '08 that fit well within our mission and that are accretive at both the top and bottom lines. Neogen is well positioned to take advantage of these new opportunities with over $13 million in cash and a significant unused bank line of credit.

As Neogen's stock value continued to rise, our Board approved a stock dividend that was paid in newly issued common stock on Sept. 4, 2007. This 3-for-2 stock split will enhance the availability and liquidity of Neogen's shares, and at the same time, reward loyal long-term investors.

A lot of changes have occurred in the last 25 years, and we believe these changes have allowed Neogen to prosper. Neogen has attracted many good employees who have embraced change. This group of employees will continue to diligently look for, and incorporate changes in technology, that will provide our customers with quicker, easier, and less expensive solutions for food and animal safety.

James L. Herbert
Chairman & CEO

Lon M. Bohannon
President & COO

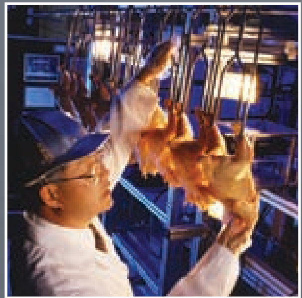
25 years

Anniversaries by their nature are a time for reflection on the past and how far you've come. By any objective measure, Neogen's first 25 years have been truly remarkable.

Neogen has been a trail blazer in the evolution of food and animal safety by introducing innovative products, and providing unmatched service to help worldwide food and animal producers improve the safety of their products.

Neogen entered the field of emergent biotechnology in the early 1980s, and has since carved out profitable niche after profitable niche. The company's more than 56 profitable quarters from operations, and such acclaim as being named to NASDAQ's Global Select Market, five times to Forbes Magazine's *list of the 200 Best Small Companies in America, and three times to* Fortune Small Business' *list of the 100 fastest-growing, publicly-held small businesses in America, stand as clear evidence of its success.*

But, no matter how far Neogen has come, or how much has changed in the past 25 years, Neogen remains unchanged where it matters most. In 1982, Neogen had neither products nor sales, but it did have a vision firmly set on developing and marketing much-needed solutions for food and animal safety. In 2007, Neogen has hundreds of products and $86 million in sales, and the same mission of being firmly focused on leading the way in providing unique, value-driven products and services for worldwide food and animal safety.



DEDICATED TO FOOD AND ANIMAL SAFETY SINCE 1982

The world has changed in 25 years

In 1982, the world's population stood at 4.5 billion. Food was often consumed close to where it was produced. Individuals shouldered much of the responsibility for food safety concerns by safely storing, and thoroughly cleaning and cooking, their food items.

When an outbreak of foodborne contamination did occur, it was generally limited to the sphere of influence of an individual restaurant or local food supplier. Little was known about other foodborne threats such as those associated with natural toxins, food allergens, veterinary antibiotic residues, and other poor veterinary practices. Some concerns, such as genetically modified organisms or the intentional contamination of food to make a political statement, did not exist.

Today, the world's population has increased approximately 45% to 6.5 billion, and the food and agriculture industry has achieved incredible efficiencies to meet ever-escalating worldwide demand. Not only has industry's capacity increased tremendously, but industry has also taken more responsibility for food safety.

Complicating the issue is that many foods and animal feeds are now often sourced from distant locations and countries. Nevertheless, consumers demand safe food items for themselves and their pets, no matter the point of origin. Consumers want all of their food and feed supplies to achieve the highest possible safety standard, whether the food or feed was produced next door or in a faraway country with a drastically different food and animal safety environment.

Food and animal safety has changed in 25 years

Neogen's founders understood that rapid diagnostic tests for food producers and processors, and better products for use by farmers, ranchers, and veterinarians, presented significant business opportunities. In the 1980s new biotechnologies were being developed by researchers that could be adapted to help solve longstanding food and animal safety challenges.

Detecting mycotoxins

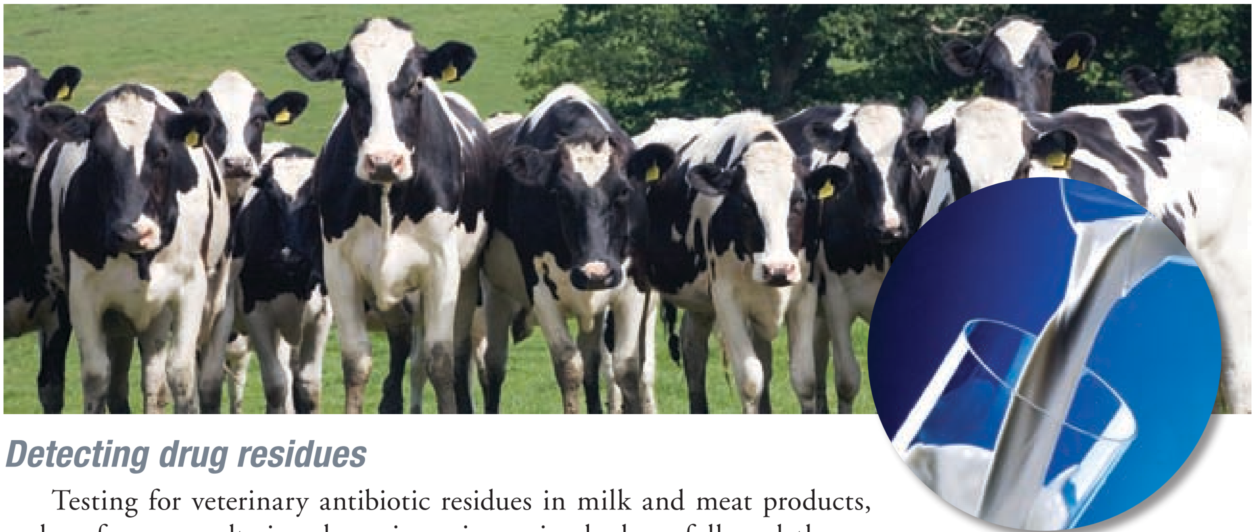
Neogen's first significant product line was rapid testing for the presence of mycotoxins—toxins that are by-products of a variety of molds that naturally occur in certain grains, nuts, and spices. Mycotoxins have been shown to have long-term adverse health effects in humans, and can kill livestock and pets if ingested in sufficient quantities.

Prior to Neogen's unique test kits for mycotoxins, researchers had to rely on cumbersome, lengthy laboratory tests that involved the use of hazardous materials and highly skilled personnel to detect the toxins. Because of the testing limitations, grain elevators and other processors had no effective means to ascertain whether or not the loads of grains that they were accepting into their facilities were contaminated.

Neogen promised, and delivered, an on-site test for the mycotoxin of greatest concern, aflatoxin, that just about anyone could perform, and return accurate results. Rapid, easy tests for other mycotoxins of concern soon followed.

Today Neogen offers tests for six mycotoxins in several different formats, including incredibly easy tests that function like home pregnancy stick tests, and can deliver definitive, easy-to-interpret results in as little as two minutes. The almost immediate results mean that grain elevator staff, and quality control personnel in the food and feed industries, can obtain results in minutes, and reject contaminated ingredients.

Outbreaks in recent years, including more than 100 human deaths in Kenya and the deaths of a large number of dogs around the world linked to outbreaks of aflatoxin, show that testing for mycotoxins remains as important as ever.



Detecting drug residues

Testing for veterinary antibiotic residues in milk and meat products, and performance-altering drugs in racing animals, have followed the same trend as testing for mycotoxins and other natural toxins. Testers had to rely on conventional laboratory methods that took days, and in many cases, food items were already shipped and consumed before the producer knew that the product was contaminated. Prize money may have already been awarded before it was determined that drug abuse was involved in racing events.

Today, Neogen's rapid tests, combined with pervasive worldwide regulations, help prevent milk contaminated with veterinary antibiotic residues from ever reaching the consumer. Using Neogen's simple BetaStar® test, a milk processor needs just a few minutes to determine if a potential incoming load of raw milk is contaminated with excessive levels of antibiotics. When combined with Neogen's AccuScan™ reader, BetaStar provides an extremely simple test with a permanent result that can satisfy the most stringent of regulatory requirements.

Neogen remains a worldwide leader in providing rapid drug residue tests to protect the integrity of animal racing, and ensure the safety of meat products. Neogen now has a vast array of approximately 100 drug residue tests used in food and animal safety markets, and also for certain research and forensic applications. When a food company recently had its pork product rejected for import by the Chinese government because of the presence of a veterinary drug, the company partnered with Neogen to help solve the problem.

Neogen is at the forefront of developing new tests to detect emergent drugs that may be used and abused throughout the world.

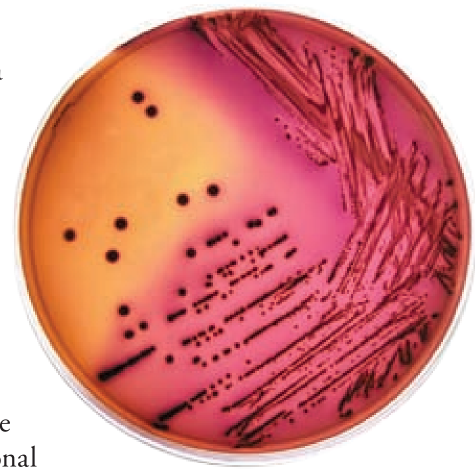
Detecting food allergens

Today's level of concern with food allergens, such as peanut, milk, and egg residues, simply didn't exist when Neogen was founded. The fact that a product not intended to contain milk, for example, actually contained trace amounts of allergenic milk proteins was not a major concern in the early 1980s, partially because fast, convenient and inexpensive means of detection did not exist at that time.

In the 1990s as researchers were gaining insight pertaining to the unintentional exposure of food allergic consumers to food allergens, Neogen developed the first commercially available rapid test for a food allergen.

With its first food allergen test, Neogen enabled the food industry to detect the unintended presence of peanut residues in products not labeled to contain peanuts. Neogen followed with additional food allergen tests, to eventually offer rapid, easy tests for seven different allergenic foods.

Detecting foodborne pathogens



Although the connection between certain dangerous bacteria and human illness had long been established before Neogen was founded, it was still quite popular in the 1980s for hamburgers to be served medium rare, and for eggs and other foods to be only moderately cooked. Today we understand the consequences of such practices, and the dangers of bacteria such as *E. coli*, *Salmonella*, and *Listeria*.

One of today's most dangerous foodborne pathogens, *E. coli* O157:H7, wasn't first described by the U.S. Centers for Disease Control and Prevention until five months after Neogen was founded. In those days, food was often shipped and consumed before food companies could receive the test results that the day's conventional laboratory plate-counting testing methods could provide.

Today, food producers and processors have an array of rapid bacterial test methods to help protect consumers—and their businesses. Neogen's Reveal® for *E. coli* O157:H7 remains a leader in testing for this harmful pathogen, with results in as little as 8 hours. The current speed of the tests enable processors to wait for results before shipping product to consumers. If a bacterial contamination problem exists, it can be stopped before it leaves the plant.

Recent pathogen outbreaks involving *Salmonella* in peanut butter, and *E. coli* in spinach and green onions, among others, point to the need for continued improvements in food processing and testing practices.

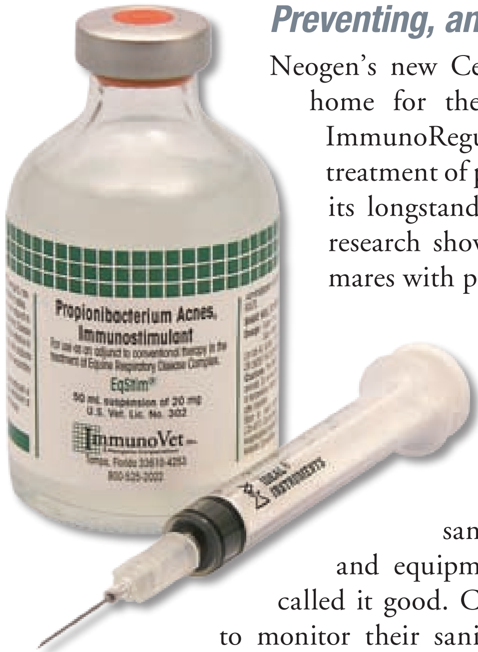
Future advancements in the testing for specific bacteria will hinge on a test method's ability to accurately detect smaller and smaller numbers of the target bacteria, and the ability of the test method's growth media to enhance the rapid growth of the target bacteria over other competitive organisms that may be in the test sample. Neogen has very active research and development programs working on the issue of detection while its Acumedia subsidiary is on the forefront of developing and optimizing growth media.

Detecting spoilage organisms

One microbiological discipline is detecting non-specific "indicator" microorganisms that are not necessarily dangerous, but could impact a product's quality or shelf-life. In years past, as with testing for specific pathogens, testers for indicator microorganisms (e.g., yeast and mold) had no other choice than to use conventional laboratory plate-counting test methods that could take several days.

Neogen's Soleris™ rapid optical microbial system significantly trims testing times, without sacrificing accuracy. For example, testers using Soleris can measure a sample's yeast and mold count in hours, compared to the five days for conventional methods. Similarly, Soleris can return an accurate total plate count in as little as 6 hours, whereas conventional methods often take 48 hours. New U.S. FDA regulations on the dietary supplement industry are expected to expand interest in the Soleris line. The new regulations require makers of dietary supplements (e.g., vitamins, minerals herbals, etc.) to meet purity and quality standards similar to those required of food and pharmaceutical producers.

The Soleris system also has been shown to be an effective tool to measure and ensure the level of probiotics being introduced into an increasing number of food items and drinks. Today's researchers are increasingly discovering the benefits of adding beneficial bacteria into such foods as yogurt and health drinks.

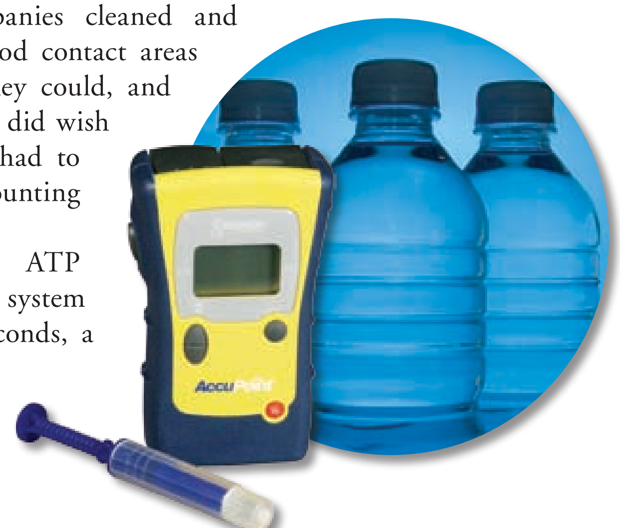


Preventing, and lessening the impact of animal diseases

Neogen's new Center for Microbiological Excellence facility will also be the new home for the production of the company's animal vaccine, and Neogen's ImmunoRegulin® and EqStim® immunostimulants. ImmunoRegulin aids in the treatment of pyoderma in dogs, and EqStim continues to find applications beyond its longstanding use in the treatment of equine respiratory infections. Recent research shows the immunostimulant to be effective in treatment of breeding mares with persistent endometritis.

Sanitation monitoring

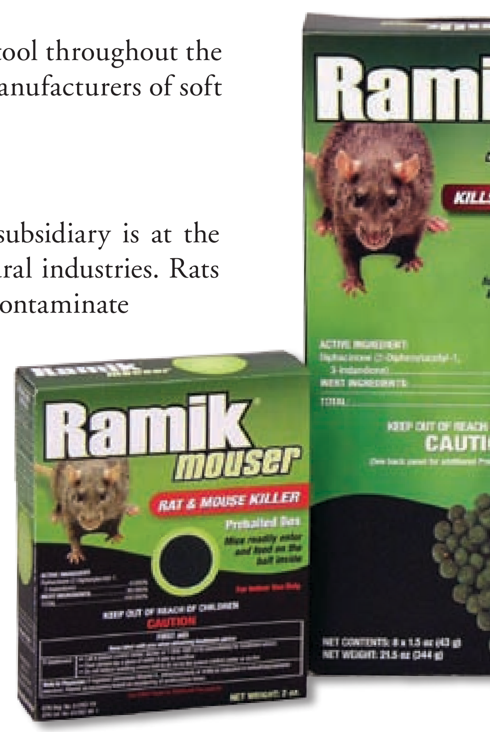
Continuously monitoring the effectiveness of the food and agriculture industry's sanitation efforts has increased dramatically since Neogen was founded. In the early 1980s, companies cleaned and sanitized their food contact areas and equipment as best they could, and called it good. Companies that did wish to monitor their sanitation efforts had to resort to conventional laboratory plate-counting technology that took days to produce results.



Today, Neogen's state-of-the-art AccuPoint® ATP Sanitation Monitoring System is quickly becoming the system of choice for sanitation monitoring. In about 10 seconds, a company can have an accurate result reflecting the cleanliness of an environmental contact surface. Contamination problems can be stopped before they start. Test results can be easily uploaded to a computer for simple trend analysis and traceability.

The simplicity and ease of use of Neogen's ATP monitoring system combined with the ruggedness of the AccuPoint reader make it a valuable tool throughout the food industry, including food service providers, caterers and grocery delis, and manufacturers of soft drinks and bottled water.

Controlling rodents



Although man's battle with rodents is seemingly endless, Neogen's Hacco® subsidiary is at the forefront of limiting rodents' adverse impact on the food production and agricultural industries. Rats and mice are a major economic threat around livestock facilities. They consume and contaminate feed, as well as spread disease. In years past, those wishing to employ rodent control programs were limited to a few choices, such as mechanical traps or a rodenticide containing an active ingredient often avoided by rodents after repeated exposure.

Today, Hacco offers a wide variety of next-generation rodenticides featuring much more effective active ingredients, such as diphacinone and brodifacoum. Neogen's line of rodenticides target everything from the disease-carrying and unwanted mouse or rat in a house, to major outbreaks of voles that can destroy large quantities of valuable orchard and row crops.

Hacco is constantly working on refining manufacturing and bait formula techniques to better attract target rodents, and at the same time, minimize the potential impact on non-target animals.

Veterinary instruments

In many ways, the market for veterinary instruments has changed drastically since the 1980s. In years past, animals were produced in smaller numbers on smaller, and more segregated farms. Today's multi-national integrators produce animals on a much larger scale and overriding concerns of cross-contamination and broken needles in meat products have led to the use of more disposable products that are detectable via a metal detector, should they break.

Although veterinary instruments is a more mature market, Neogen's innovative marketing, manufacturing and packaging capability has contributed to solid year-after-year sales growth and led to new marketing partnerships with large animal health companies.

Controlling animal disease

Historically, animal producers and consumers were not concerned with the presence of antibiotics or other medicines in animal products. Today, a growing concern for resistant strains of bacteria, and direct human health problems, has led to governmental regulation and restrictions on antibiotics in animal production.

To keep herds and flocks healthy, while protecting consumers, producers have improved animal management practices, and included veterinary supplements, electrolytes, and vitamins in an animal's diet. Healthy animals require less medication and are more resistant to disease. Neogen's topicals and disinfectants also play a significant role in improving both animal and food safety.

In 1982, the food and animal safety environment was drastically different than it is today. Neogen anticipates no less of a change in the next 25 years. Whatever changes come, Neogen's mission is as timely and relevant today as it was 25 years ago. Neogen will continue to improve upon its leadership role in providing unsurpassed service and innovative solutions for food and animal safety.

25 years NEOGEN® CORPORATION

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

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

Accounts Receivable Allowance

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

Inventory

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

Valuation of Intangible Assets and Goodwill

Management assesses goodwill and other non-amortizable intangible assets for possible impairment on no less often than an annual basis. This test was performed in the fourth quarter of fiscal 2007 and it was determined that no impairment exists. There was also no impairment indicated for 2006 or 2005. 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 under performance relative to expected historical or projected future operating results.
- Significant changes in the use of acquired assets or strategy of the Company.
- Significant negative industry or economic trends.

When management determines that the carrying value of 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.

Stock Options

At May 31, 2007, the Company had stock option plans, which are described more fully in Note 7. Effective June 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised), Share-Based Payment. The revised Statement requires companies to measure the cost of employee stock options based on the grant-date fair value and recognize that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The Company adopted the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company restated all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed.

Prior to the adoption of the revised Statement, the Company presented all of the income tax benefits resulting from the exercise of stock options as cash flows provided by operating activities in the consolidated statements of cash flows. The revised Statement requires the income tax benefit from deductions, resulting from the exercise of stock options, in excess of the compensation cost recognized (excess income tax benefit) to be classified as cash flows provided by financing activities. Excess income tax benefit from exercise of stock options reported as cash flows provided by financing activities for the years ended May 31, 2006 and 2005, respectively, would have been classified as cash flows provided by operating activities if the Company had not adopted the provisions of the revised Statement.

RESULTS OF OPERATIONS

Executive Overview

On an overall basis, the 2007 fiscal year had a 19% revenue increase in comparison with the fiscal year ended May 31, 2006, as a result of revenue increases and operating improvements in both of the Company's operating segments. A portion of the revenue increases came from the Company's December 2005 acquisition of the dairy antibiotic testing business of UCB and from the February 2006 acquisition of Centrus International Inc. Revenue from continuing product sales increased by 9%. This continuing product growth came as a result of the further implementation of sales and marketing plans and continuing recognition of the ease of use and beneficial results from the Company's products. Gross margins increased by 60 basis points to 52% for the year and net income was up 30% to $9,125,000. These increases resulted principally due to sales gains translating to higher percentage increases in gross margins and net income, changes in product mix, the current year effect of reorganizations completed in past years and continued strong control of costs. Operating expenses remained at 36% in fiscal 2007.

REVENUES

	Twelve Months Ended				
(dollars in thousands)	**May 31, 2007**	**Increase**	May 31, 2006	Increase	May 31, 2005
Food Safety:					
Natural Toxins, Allergens & Drug Residues	**$ 25,090**	**51%**	$ 16,633	51%	$ 10,982
Bacterial & General Sanitation	**13,250**	**31%**	10,115	2%	9,943
Dry Culture Media & Other	**8,616**	**5%**	8,203	13%	7,231
	$ 46,956	**34%**	$ 34,951	24%	$ 28,156
Animal Safety:					
Life Sciences & Other	**$ 4,863**	**7%**	$ 4,553	5%	$ 4,331
Vaccine	**2,997**	**6%**	2,837	11%	2,564
Rodenticides & Disinfectants	**10,926**	**3%**	10,651	7%	9,941
Veterinary Instruments & Other	**20,396**	**5%**	19,441	9%	17,764
	$ 39,182	**5%**	$ 37,482	8%	$ 34,600
Total Revenues	**$ 86,138**	**19%**	$ 72,433	15%	$ 62,756

Within the Food Safety Segment, Natural Toxins, Allergens and Drug Residue sales were up 51% in fiscal year 2007 in comparison with sales in 2006 following a similar 51% increase in the prior year. A significant portion of the gain in this category in both years resulted from sales of products acquired in December 2005. Exclusive of the dairy antibiotic testing products, Natural Toxins and Allergens revenues increased by 16% in comparison with the 2006 fiscal year and 18% in the 2006 fiscal year comparison with the 2005 fiscal year. Increases in diagnostic test kit sales to detect naturally occurring toxins such as aflatoxin continue to be realized due to superior technologies and marketing by the Company. Sales of food allergen test kits to detect the presence of harmful allergens increased in part because of the implementation of new labeling regulations in January 2006. The growth in this area is fueled by public and producer recognition of this food safety threat.

Sales of Bacterial and General Sanitation products, including the sales of products contributed by the acquisition of Centrus International in February 2006, increased by 31% in fiscal year 2007 in comparison with fiscal 2006 and increased by 2% from fiscal year 2005 to 2006. Sales of the AccuPoint ATP general sanitation test continued to gain momentum domestically and internationally throughout fiscal year 2007 and 2006 following a move from an outside supplier of ATP product to a more user friendly and stable internally produced product with improved margins. Sales of diagnostic tests for the detection of bacteria did not increase as much as a result of newer competition and some pricing erosion in the marketplace. The Centrus acquisition added 3% to sales increases of existing products in fiscal year 2007.

Dehydrated culture media and other sales increased by 5% in 2007 and by 13% in 2006 primarily as a result of increased market penetration both domestically and internationally. The Company's focus on customer service and resolution of customer operating problems has resulted in sales increases in each fiscal year.

Within the Animal Safety Segment, sales of life science and other products increased by 7% in fiscal year 2007 in comparison with 2006 and by 5% in 2006 in comparison with the 2005 fiscal year. Sales of forensic drug tests, TMB Substrates and diagnostic research kits each contributed to the sales growth as the Company continues to add business from the existing customer base as well as by adding new customers.

Vaccine product sales increased by 6% in 2007 in comparison with 2006 and by 11% in fiscal 2006 in comparison with 2005, fueled by strong increases in sales in international markets and due to the addition of new channel partners.

Sales of Hacco rodenticides and Hess and Clark disinfectants increased 3% in fiscal year 2007 following a 7% increase in fiscal 2006. Rodenticide revenue increases in 2007 and 2006 are due to increased market penetration with OEM customers and added international sales. In general, mild weather conditions have led to fewer infestations in 2007 and 2006.

Veterinary instruments and other sales increased in 2007 by 5% and increased by 9% in 2006. Fiscal year 2007 increases of 25% in Ideal Instrument veterinary products were broad based but were offset by declines in revenues related to equine supplements, certain wound care and other products. In 2006 increases were driven by 9% increase in sales of veterinary instruments.

COST OF GOODS SOLD

(dollars in thousands)	**2007**	**Increase**	2006	Increase	2005
Cost of Goods Sold	**$ 41,575**	**17%**	$ 35,427	10%	$ 32,153

Cost of goods sold increased by 17% in 2007 and by 10% in 2006 in comparison with the prior year. This compares against a 19% increase in revenues in 2007 and a 15% increase in revenues in 2006. Expressed as a percentage of revenues, cost of goods sold was 48%, 49% and 51% in 2007, 2006, and 2005 respectively. Overall margins in 2005 were affected negatively by costs related to relocation of operating facilities in Chicago and Baltimore to Lansing and Lexington.

Food Safety gross margins were 60%, 59% and 57% in 2007, 2006 and 2005, respectively. Changes in margins between periods relate primarily to changes in product mix. In fiscal 2005, the Company increased overhead costs related to the new diagnostic manufacturing facility and the new ATP product introduction that adversely affected gross margins. Margins in 2005 were also adversely affected by the cost of moving the Company's Acumedia unit and the start up costs of the new facility in Lansing. Food Safety margins sequentially increased during the 2005 fiscal year and more fully during the 2006 and 2007 fiscal years as the effects of efficiencies resulting from investments in manufacturing facilities and the ATP change to manufacture this product internally began to be realized.

Animal Safety gross margins were 41%, 43% and 42% in 2007, 2006 and 2005, respectively. Changes in margins between periods relate primarily to product mix.

OPERATING EXPENSES

(dollars in thousands)	**2007**	**Increase**	2006	Increase	2005
Operating Expenses:					
Sales and Marketing	**$ 18,463**	**17%**	$ 15,799	17%	$ 13,484
General and Administrative	**9,301**	**25%**	7,414	7%	6,938
Research and Development	**3,295**	**10%**	2,988	9%	2,729

Sales and marketing expense categories increased by 17% in both 2007 and 2006 as compared with the prior year. As a percentage of sales, sales and marketing expense was substantially unchanged when the years are compared. Management plans to continue to expand the Company's sales and marketing efforts both domestically and internationally in the future and currently expects related expenses to remain between 20% and 25% expressed as a percentage of sales.

General and administrative expenses increased by 25% in 2007 and by 7% in 2006. These expenses have remained between 10% and 11% over the past three fiscal years. Increases in 2006 resulted primarily from the acquisitions as well as due to increased levels of operations. Increases in 2007 were related to litigation costs surrounding the Company's detectable needle and added amortization related to business acquired. In addition, the increase was due to costs to relocate the Tampa production facility and normal costs related to growth. In general these expenses do not vary as much with sales as compared to many other Company expenses.

Research and development expenses increased by 10% in comparison with 2006 and by 9% in 2006 in comparison with 2005. As a percentage of revenue these expenses were 4% in each of the years ended May 31, 2007, 2006 and 2005 respectively. Although some fluctuation in research and development expenses will occur, management expects research and development expenses to approximate 4% to 6% of revenues over time. These expenses approximate 8% to 10% of revenues from products and product lines that are supported by research and development. Certain Company products require relatively less in research and development expenses.

OPERATING INCOME

(dollars in thousands)	**2007**	**Increase**	2006	Increase	2005
Operating Income	**$ 13,504**	**25%**	$ 10,805	45%	$ 7,452

During fiscal year 2007 and 2006, the Company's operating income increased by 25% and 45%. As a percentage of revenues it was 16%, 15% and 12% in 2007, 2006 and 2005 respectively. The Company has been successful in improving its operating income in 2007 and 2006 from the positive effects of restructurings in 2005 and 2004, economies of scale and the effects of new acquisitions.

OTHER INCOME (NET)

(dollars in thousands)	**2007**	**Increase**	2006	(Decrease)	2005
Other Income - Interest and Other (Net)	**$ 371**	**706%**	$ 46	(69%)	$ 147

Other income increased by 706% in comparison with 2006 and decreased by 69% in 2006 in comparison with 2005. Interest revenue and expense is a result of the Company's cash versus debt position in the periods. Debt exceeded interest earning assets in fiscal 2005 and 2006. Investment earnings were $373,000 in fiscal 2007. In 2006 and 2005, the Company recognized grant income of $250,000 in each year related to a grant from governmental units.

FEDERAL AND STATE INCOME TAXES

(dollars in thousands)	**2007**	**Increase**	2006	Increase	2005
Federal and State Income Taxes	**$ 4,750**	**24%**	$ 3,822	43%	$ 2,670

Federal and state income tax rates used in the computation of income tax expense in the periods remained comparable to those in the prior year. Expressed as a percentage of income before tax, such rates were 34% in 2007, and 35% in 2006 and 2005. In major part, the change in percentage taxes paid resulted from changes in profitability of individual operating units and state tax credits awarded and recognized in any given year.

NET INCOME AND NET INCOME PER SHARE

(dollars in thousands-except per share data)	**2007**	**Increase**	2006	Increase	2005
Net Income	**$ 9,125**	**30%**	$ 7,029	43%	$ 4,929
Net Income Per Share-Basic	**$ .99**		$ .85		$ .61
Net Income Per Share-Diluted	**$ .97**		$ .83		$ .59

Net income and net income per share increased by 30% in 2007 and 43% in 2006 in comparison with the prior year. As a percentage of revenue, net income was 11%, 10% and 8% in 2007, 2006 and 2005 respectively.

FUTURE OPERATING RESULTS

Neogen Corporation's future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below as well as those discussed elsewhere in this report. Management's ability to grow the business in the future depends upon its ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities;
- expanding the Company's markets by fostering increased use of Company products by customers;
- strengthening sales and marketing activities in geographies outside of the U.S.;
- developing and implementing new technology development strategies; and
- identifying and completing acquisitions that enhance existing businesses or create new business areas.

FINANCIAL CONDITION AND LIQUIDITY

On May 31, 2007, the Company had $13,424,000 in cash and cash equivalents, working capital of $41,060,000 and stockholders' equity of $91,945,000. In addition to cash and security balances, a bank line with unused borrowings of $10,000,000 was available if necessary to support ongoing operations or to make acquisitions.

Cash and cash equivalents increased $11,465,000 during 2007. Cash provided from operations was $10,158,000 and stock sales provided an additional $15,736,000 of cash. Additions to property and equipment and other non-current assets used cash of $4,704,000 and the repayment of bank debt used $9,955,000.

Accounts receivable increased $1,798,000 or 14% when compared to May 31, 2006. This resulted from increased sales. Days sales outstanding decreased from 56 days at May 31, 2006 to 54 days at May 31, 2007.

Inventory levels increased 8% or $1,490,000 in 2007 as compared to 2006. The Company maintains sufficient levels of inventory to assure that customer demands can be met on a timely basis. Increases are proportionate with increases in sales.

Acquisitions of long-lived assets totaled $4,704,000 and resulted from purchases and renovations of new manufacturing facilities and equipment for the Food Safety segment and other expenditures during the year.

On June 2, 2006, the Company announced that it had completed an offering of 800,000 shares of common stock, of which 650,000 were sold by the Company and 150,000 were sold by two members of management, for an aggregate purchase price of approximately $16.0 million. The net proceeds of the offering to the Company were approximately $12.2 million after deducting the placement agency fees and offering expenses that were payable by the Company. The Company did not receive any proceeds from the sale of the shares by the Selling Stockholders. Proceeds were used to repay the Company's borrowings and add to working capital.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations due by period:

(in thousands)	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	$ –	$ –	$ –	$ –	$ –
Operating Leases	518,000	288,000	230,000	–	–
Unconditional Purchase Obligations	8,291,000	8,291,000	–	–	–
	$ 8,809,000	$ 8,579,000	$ 230,000	$ –	$ –

Neogen has been profitable from operations for its last 57 quarters and has generated positive cash flow from operations during the period. However, the Company's current funds may not be sufficient to meet the Company's cash requirements to commercialize products currently under development or its plans to acquire additional technology and products that fit within the Company's mission statement. Accordingly, the Company may be required to or may choose to issue equity securities or enter into other financing arrangements for a portion of the Company's future capital needs.

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 results of operations or financial position.

NEW ACCOUNTING PRONOUNCEMENTS

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

May 31,	2007	2006 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	**$ 13,424,000**	$ 1,959,000
Accounts receivable, less allowance of $500,000 and $530,000	**14,914,000**	13,116,000
Inventories	**19,116,000**	17,626,000
Deferred income taxes	**787,000**	1,264,000
Prepaid expenses and other current assets	**2,857,000**	2,304,000
Total Current Assets	**51,098,000**	36,269,000
Property and Equipment		
Land and improvements	**1,057,000**	970,000
Buildings and improvements	**10,196,000**	9,403,000
Machinery and equipment	**14,000,000**	11,159,000
Furniture and fixtures	**745,000**	606,000
	25,998,000	22,138,000
Less accumulated depreciation	**(9,596,000)**	(7,883,000)
Net Property and Equipment	**16,402,000**	14,255,000
Other Assets		
Goodwill	**24,448,000**	28,937,000
Other non-amortizable intangible assets	**3,181,000**	2,076,000
Customer based intangibles, net of accumulated amortization of $1,215,000 and $639,000	**6,182,000**	5,049,000
Other non-current assets, net of accumulated amortization of $1,290,000 and $924,000	**3,973,000**	1,704,000
Total Other Assets	**37,784,000**	37,766,000
	$ 105,284,000	$ 88,290,000

May 31,	2007	2006 (Restated)
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 4,507,000**	$ 2,832,000
Accruals		
Compensation and benefits	**1,737,000**	1,642,000
Federal income taxes	**1,377,000**	876,000
Other	**2,417,000**	4,667,000
Total Current Liabilities	**10,038,000**	10,017,000
Long-Term Debt	**–**	9,955,000
Deferred Income Taxes	**1,441,000**	1,105,000
Other Long-Term Liabilities	**1,860,000**	1,789,000
Total Liabilities	**13,339,000**	22,866,000
Stockholders' Equity		
Preferred stock, $1.00 par value - shares authorized 100,000; none issued and outstanding	**–**	–
Common stock, $0.16 par value - shares authorized 20,000,000; 9,347,204 and 8,310,624 shares issued and outstanding	**1,496,000**	1,330,000
Additional paid-in capital	**52,446,000**	35,517,000
Accumulated other comprehensive income	**386,000**	85,000
Retained earnings	**37,617,000**	28,492,000
Total Stockholders' Equity	**91,945,000**	65,424,000
	$ 105,284,000	$ 88,290,000

See accompanying notes to consolidated financial statements.

Year Ended May 31	**2007**	2006 (Restated)	2005 (Restated)
Net Sales	**$ 86,138,000**	$ 72,433,000	$ 62,756,000
Cost of Goods Sold	**41,575,000**	35,427,000	32,153,000
Gross Margin	**44,563,000**	37,006,000	30,603,000
Operating Expenses			
Sales and marketing	**18,463,000**	15,799,000	13,484,000
General and administrative	**9,301,000**	7,414,000	6,938,000
Research and development	**3,295,000**	2,988,000	2,729,000
	31,059,000	26,201,000	23,151,000
Operating Income	**13,504,000**	10,805,000	7,452,000
Other Income (Expense)			
Interest income	**373,000**	80,000	7,000
Interest expense	**(15,000)**	(283,000)	(83,000)
Grant income and other	**13,000**	249,000	223,000
	371,000	46,000	147,000
Income Before Income Taxes	**13,875,000**	10,851,000	7,599,000
Income Taxes	**4,750,000**	3,822,000	2,670,000
Net Income	**$ 9,125,000**	$ 7,029,000	$ 4,929,000
Net Income Per Share			
Basic	**$ .99**	$ .85	$ .61
Diluted	**$ .97**	$ .83	$ .59

See accompanying notes to consolidated financial statements.

	Common Stock		Additional Paid-in		Retained	Total Stockholders'
	Shares	Amount	capital	Other[1]	Earnings	Earnings
Balance, June 1, 2004, as Restated	8,010,222	$ 1,282,000	$ 32,702,000	$ 99,000	$16,534,000	$ 50,617,000
Exercise of options and warrants, net of share based compensation, including $330,000 income tax benefit	149,816	24,000	1,117,000			1,141,000
Issuance of warrants			55,000			55,000
Issuance of shares under Employee Stock Purchase Plan	6,895	1,000	100,000			101,000
Repurchase of common stock	(19,922)	(3,000)	(254,000)			(257,000)
Comprehensive income:						
Net income for 2005 (restated)					4,929,000	4,929,000
Foreign currency translation adjustments				37,000		37,000
Total comprehensive income						4,966,000
Balance, May 31, 2005, as Restated	8,147,011	1,304,000	33,720,000	136,000	21,463,000	56,623,000
Exercise of options and warrants, net of share based compensation, including $328,000 income tax benefit	154,786	25,000	1,626,000			1,651,000
Issuance of warrants			51,000			51,000
Issuance of shares under Employee Stock Purchase Plan	10,865	2,000	148,000			150,000
Repurchase of common stock	(2,038)	(1,000)	(28,000)			(29,000)
Comprehensive income:						
Net income for 2006 (restated)					7,029,000	7,029,000
Foreign currency translation adjustments				(51,000)		(51,000)
Total comprehensive income						6,978,000
Balance, May 31, 2006, as Restated	8,310,624	1,330,000	35,517,000	85,000	28,492,000	65,424,000
Issuance of Common Stock	650,000	104,000	12,890,000			12,994,000
Exercise of options and warrants, net of share based compensation, including $460,000 income tax benefit	377,057	60,000	3,789,000			3,849,000
Issuance of warrants			66,000			66,000
Issuance of shares under Employee Stock Purchase Plan	9,523	2,000	184,000			186,000
Comprehensive income:						
Net income for 2007					9,125,000	9,125,000
Foreign currency translation adjustments				301,000		301,000
Total comprehensive income						9,426,000
Balance, May 31, 2007	**9,347,204**	**$ 1,496,000**	**$ 52,446,000**	**$ 386,000**	**$ 37,617,000**	**$ 91,945,000**

See accompanying notes to consolidated financial statements.

[1]Other represents accumulated other comprehensive income

	Year Ended May 31		
	2007	2006 (Restated)	2005 (Restated)
Cash Flows From Operating Activities			
Net income	**$ 9,125,000**	$ 7,029,000	$ 4,929,000
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	**2,840,000**	2,417,000	1,703,000
Deferred income taxes	**813,000**	485,000	309,000
Share based compensation	**1,293,000**	1,240,000	1,317,000
Excess income tax benefit from the exercise of stock options	**(460,000)**	(328,000)	(330,000)
Other	**367,000**	–	92,000
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	**(1,798,000)**	(1,346,000)	(545,000)
Inventories	**(1,490,000)**	(671,000)	(1,331,000)
Prepaid expenses and other current assets	**(553,000)**	(930,000)	256,000
Accounts payable	**1,675,000**	90,000	(715,000)
Accruals and other changes	**(1,654,000)**	3,573,000	855,000
Net Cash From Operating Activities	**10,158,000**	11,559,000	6,540,000
Cash Flows Used In Investing Activities			
Purchases of property, equipment and other noncurrent assets	**(4,704,000)**	(2,692,000)	(2,688,000)
Business and product line acquisitions, net of cash acquired	**–**	(20,658,000)	(874,000)
Net Cash Used In Investing Activities	**(4,704,000)**	(23,350,000)	(3,562,000)
Cash Flows From (Used In) Financing Activities			
Net proceeds from issuance of common stock	**12,994,000**	–	–
Exercise of options	**2,441,000**	1,524,000	875,000
Repurchase of common stock	**–**	(29,000)	(257,000)
Proceeds from long-term debt	**–**	14,640,000	–
Payments on long-term debt	**(9,955,000)**	(4,685,000)	(3,900,000)
Excess income tax benefit from the exercise of stock options	**460,000**	328,000	330,000
Increase in other long-term liabilities	**71,000**	–	250,000
Net Cash From (Used In) Financing Activities	**6,011,000**	11,778,000	(2,702,000)
Net Increase (Decrease) In Cash	**11,465,000**	(13,000)	276,000
Cash and cash equivalents at beginning of year	**1,959,000**	1,972,000	1,696,000
Cash and cash equivalents at end of year	**$ 13,424,000**	$ 1,959,000	$ 1,972,000
Supplemental Cash Flow Information			
Income taxes paid, net of refunds	**$ 3,295,000**	$ 1,194,000	$ 2,249,000
Interest paid	**$ 15,000**	$ 283,000	$ 53,000

See accompanying 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 all of which are wholly owned (collectively, the Company).

All intercompany accounts and transactions have been eliminated in consolidation.

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 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. During the year ended May 31, 2007, one Food Safety distributor customer had revenues of 11.8%. No other customer had revenues in excess of 10%. No single customer accounted for more than 10% of accounts receivable at May 31, 2007 and 2006.

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

Cash and cash equivalents are used to support current operations and may be invested to take advantage of short-term investment opportunities. The Company invests in only high quality, short-term investments with original maturity dates of less than 90 days. These securities are considered to be available-for-sale marketable securities. However, there were no significant differences between cost and estimated fair market value at May 31, 2007 and 2006. Additionally, since investments are short-term and carried to maturity, there were no realized gains and losses in 2007, 2006 or 2005. At May 31, 2007 cash equivalents included short term high grade commercial paper and amounted to $11,400,000 and $150,000 at May 31, 2007 and 2006 respectively.

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:

	2007	2006
Raw materials	**$ 7,884,000**	$ 8,033,000
Work-in-process	**390,000**	411,000
Finished goods	**10,842,000**	9,182,000
	$ 19,116,000	$ 17,626,000

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 $1,901,000, $1,779,000 and $1,444,000 in 2007, 2006 and 2005, respectively.

Goodwill and 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. 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, such assets are reduced to their estimated fair value.

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 recorded.

Reclassification

Certain amounts in the 2006 and 2005 financial statements have been reclassified to conform to the 2007 presentation.

Stock Options

At May 31, 2007, the Company had stock option plans, which are described more fully in Note 7. Effective June 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised), Share-Based Payment. The revised Statement requires companies to measure the cost of employee stock options based on the grant-date fair value and recognize that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The Company adopted the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company restated all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed.

As a result of the adoption of the revised Statement, the Company's operating income for the years ended May 31, 2007, 2006 and 2005 was reduced by $1,293,000, $1,240,000 and $1,317,000 respectively, and the Company's net earnings for the same periods were reduced by $833,000, $913,000 and $987,000 respectively. Basic and diluted net earnings per share for the years ended May 31, 2007, 2006 and 2005 were reduced by $.09, $.09 and $.11, respectively. In addition, prior period balance sheets were adjusted to reflect the cumulative impact of stock option compensation expense and stock option exercise activity as required by the modified-retrospective transition method. Such restatements resulted in additional deferred tax assets and changes in stockholder equity of $877,000 and $876,000 at May 31, 2006 and $753,000 and $1,788,000 at May 31, 2005, respectively.

Prior to the adoption of the revised Statement, the Company presented all of the income tax benefits resulting from the exercise of stock options as cash flows provided by operating activities in the consolidated statements of cash flows. The revised Statement requires the income tax benefit from deductions, resulting from the exercise of stock options, in excess of the compensation cost recognized (excess income tax benefit) to be classified as cash flows provided by financing activities. Excess income tax benefit from exercise of stock options reported as cash flows provided by financing activities for the years ended May 31, 2006 and 2005, respectively, would have been classified as cash flows provided by operating activities if the Company had not adopted the provisions of the revised Statement.

The weighted-average fair value per share of options granted during 2007, 2006 and 2005, estimated on the date of grant using the Black-Scholes option pricing model, was $8.53, $6.37 and $6.06, respectively. The fair value of options granted was estimated using the following weighted-average assumptions:

	2007	2006	2005
Risk-free interest rate	**4.7%**	4.9%	3.25%
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**46.5%**	44.5%	44.5%
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 straight-line method over their 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 $3,426,000, $3,223,000 and $2,649,000 in 2007, 2006 and 2005, respectively.

Research and Development

Research and development expenditures are charged to operations as incurred.

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.

No provision has been made for United States federal income taxes that may result from future remittances of the undistributed earnings of Neogen Europe, Ltd. Because it is expected that such earnings will be reinvested overseas indefinitely.

Advertising Costs

Advertising costs are expensed as incurred and totaled $393,000, $364,000 and $264,000 in 2007, 2006, 2005, 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,	**2007**	2006 (Restated)	2005 (Restated)
Numerator for basic and diluted net income per share			
Net income	**$ 9,125,000**	$ 7,029,000	$ 4,929,000
Denominator			
Denominator for basic net income per share weighted average shares	**9,194,000**	8,247,000	8,097,000
Effect of dilutive stock options and warrants	**247,000**	210,000	257,000
Denominator for diluted net income per share	**9,441,000**	8,457,000	8,354,000
Net income per share			
Basic	**$ .99**	$ .85	$ .61
Diluted	**$ .97**	$ .83	$ .59

In 2006 and 2005, approximately 100,000 options were excluded from the computations of net income per share as the result of option prices exceeding the average market price of the common shares. No options were excluded in 2007.

New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in their financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company does not believe the effect of this interpretation will materially effect its financial statements.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company follows the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 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 SFAS No. 142 as of the first day of the fourth quarter of 2007 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
Balance, June 1, 2005	$ 6,548,000	$ 12,051,000
Goodwill acquired	10,338,000	–
Balance, May 31, 2006	16,886,000	12,051,000
Goodwill acquisition valuation adjustments	(4,489,000)	–
Balance, May 31, 2007	**$ 12,397,000**	**$ 12,051,000**

Non-amortizable intangible assets include licenses of $377,000, trademarks of $1,587,000, and customer relationship intangibles of $1,224,000.

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	$ 1,172,000	$ 391,000	$ 781,000
Covenants not to compete	260,000	233,000	27,000
Patents	491,000	300,000	191,000
Customer relationship intangibles	5,688,000	639,000	5,049,000
Balance, May 31, 2006	$ 7,611,000	$ 1,563,000	$ 6,048,000
Licenses	$ 1,117,000	$ 482,000	$ 635,000
Covenants not to compete	260,000	249,000	11,000
Patents	2,622,000	559,000	2,063,000
Customer relationship intangibles	7,397,000	1,215,000	6,182,000
Balance, May 31, 2007	**$ 11,396,000**	**$ 2,505,000**	**$ 8,891,000**

Amortization expense for other intangibles totaled $939,000, $638,000 and $259,000 in 2007, 2006 and 2005, respectively. The estimated amortization expense for each of the five succeeding years is as follows: $1,062,000 in 2008, $1,011,000 in 2009, $938,000 in 2010, $892,000 in 2011, and $850,000 in 2012. 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.

3. BUSINESS AND PRODUCT LINE ACQUISITIONS

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

As of October 1, 2004, Neogen Europe, Ltd., the Company's subsidiary in Scotland, UK, acquired the distribution business of BiologischeAnalysensysteme GmbH (BAG), a privately held company based in Lich, Germany. BAG was a distributor of Neogen Corporation's products in Germany. BAG's revenues in the 12 months ended September 30, 2004 were approximately $600,000. Consideration for the acquisition was cash of $448,000. The allocation of the purchase price included inventory of $68,000, equipment of $21,000 and customer based intangibles of $359,000. As of October 1, 2005 the Company made a second payment of $180,000 related to the revenues of BAG in the first year following the acquisition. The acquisition is expected to improve distribution of the Company's products in Germany and is included in the Company's Food Safety segment.

On October 13, 2004, the Company acquired the UriCon product line of Animal Health Ventures, Inc., a privately held company.

UriCon is a product used for the treatment of urinary incontinence in dogs. Consideration for the purchase was cash of $200,000. The allocation of the purchase price included inventory of $23,000 and intangibles of $177,000. The acquisition adds to the Company's product lines directed toward the treatment of medical disorders in companion animals and is included in the Company's Animal Safety segment.

On December 19, 2005, Neogen Corporation purchased certain assets of the dairy antibiotics business of UCB FD Bioproducts, a division of Belgium based UCB Group. Consideration for the sale, including transaction costs of $500,000, was $17,100,000 in cash, and post closing adjustments. The allocation of the purchase price, included $1,000,000 of accounts receivable, $2,900,000 of inventory, $1,200,000 of fixed assets, $4,600,000 of goodwill and $7,400,000 of other intangibles. Other intangibles include $6,400,000 of amortizable assets (distributor agreement and acquired patents) that have been assigned nine to eleven year lives. The dairy antibiotic business is believed to be a strong synergistic fit into Neogen's overall strategy of providing food and animal safety solutions. Intangible assets in this transaction are expected to be deducted for tax purposes as amortized. During the third quarter of fiscal 2007 the Company completed the allocation of the purchase price to the individual assets acquired and liabilities assumed, of UCB FD Bioproducts, which resulted in an increase of $1,000,000 and $1,950,000 to other nonamortizable assets and other non-current assets, respectively on the consolidated balance sheet and a decrease of $2,786,000 to goodwill compared to amounts reported as of May 31, 2006. The goodwill, along with the other assets and liabilities of UCB FD Bioproducts, are included in the Company's Food Safety segment.

Unaudited pro forma financial information, as if the acquisition of the dairy antibiotics business had taken place on June 1, 2004 is as follows:

Years Ended May 31,	2006 (Restated)	2005 (Restated)
Revenue	$ 76,828,000	$ 71,958,000
Net Income	6,947,000	6,036,000
Diluted net income per share	$ .84	$ .73

On February 17, 2006, Neogen Corporation purchased the common stock of Centrus International, Inc., a wholly owned subsidiary of Eastman Chemical Company, of Kingsport, Tennessee. Consideration consisted of $3,300,000 in cash. The allocation of the purchase price included accounts receivable of $280,000, inventory of $270,000, fixed assets of $180,000, $860,000 of goodwill and $1,740,000 of other intangibles. Other intangibles include $1,640,000 of amortizable assets (customer based intangible and acquired patents) that have been assigned thirteen to fifteen year lives and deferred tax assets of $300,000 related to net operating loss carry forwards and assumed liabilities of $330,000. Centrus produces Soleris™, a user-friendly, rapid optical testing system that accurately detects microbial contamination and represents a synergistic fit with Neogen's Food Safety solutions. Centrus unaudited sales in the 12 month period ended December 31, 2005 (prior to the acquisition) were $2,800,000. Intangible assets in this transaction are not expected to be deducted for tax purposes as amortized. During fiscal 2007 the Company completed the allocation of the purchase price to the individual assets acquired and liabilities assumed, of Centrus International, Inc. which resulted in an increase of $104,000 and $1,641,000 to other nonamortizable assets, respectively on the consolidated balance sheet and a decrease of $1,720,000 to goodwill compared to amounts reported as of May 31, 2006. The goodwill, along with other assets and liabilities of Centrus International, Inc. are included in the Company's Food Safety segment.

4. LONG-TERM DEBT

The Company has a financing agreement with a bank (nothing drawn at May 31, 2007) providing for an unsecured revolving line of credit of $10,000,000 that matures on December 1, 2008. Interest is at LIBOR plus 95 basis points (rate under the terms of the agreement was 6.27% at May 31, 2007). Financial covenants include maintaining specified funded debt to EBITDA and debt service ratios as well as specified levels of tangible net worth, all of which are complied with at May 31, 2007.

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 at an exercise price of not less than the fair market value of the stock on the date of grant under the terms of the Company's stock option plans. The number of shares initially authorized for issuance under the plans is 4,074,219. Remaining shares available for grant under stock option plans were 599,134, 804,175 and 985,731 at May 31, 2007, 2006 and 2005, respectively. Options vest over periods ranging from three to five years and option terms are generally five years.

The following is a summary of stock option plan activity:

	Shares	Weighted-Average Exercise Price
Outstanding at May 31, 2004 (301,839 exercisable)	1,202,746	$ 10.53
Granted	198,500	19.36
Exercised	(149,502)	6.77
Forfeited	(32,625)	13.74
Outstanding at May 31, 2005 (455,732 exercisable)	1,219,119	12.31
Granted	202,250	18.41
Exercised	(172,570)	7.15
Forfeited	(20,694)	16.73
Outstanding at May 31, 2006 (587,631 exercisable)	1,228,105	14.02
Granted	215,000	20.3
Exercised	(424,012)	10.92
Forfeited	(9,959)	14.14
Outstanding at May 31, 2007 (458,674 exercisable)	**1,009,134**	**$ 16.65**

The following is a summary of stock options outstanding at May 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number	Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$ 4.09–6.13	28,958	3.1	$5.10	28,958	$ 5.10
8.18–10.22	118,590	2.9	9.79	84,278	9.78
10.23–12.27	15,418	3.7	11.04	15,418	11.04
14.32–16.36	261,718	3.8	15.21	197,606	15.21
16.37–18.40	81,100	2.4	18.19	32,267	18.19
18.41–20.45	503,350	4.8	19.61	100,147	19.52
$ 4.09–20.45	1,009,134	4.1	$16.65	458,674	$ 14.58

The weighted-average exercise price of shares that were exercisable at May 31, 2006 and 2005 was $11.82 and $9.98, respectively.

The aggregate intrinsic value of options outstanding and options exercisable was $3,793,000 and $2,421,000 at May 31, 2005, $7,900,000 and $5,500,000 at May 31, 2006 and $10,826,000 and $5,869,000 at May 31, 2007. The aggregate intrinsic value of options exercised during the year was $1,769,000 in FY 2005, $1,987,000 in FY 2006 and $6,547,000 in FY 2007. Remaining compensation cost for nonvested shares was $1,770,000 at May 31, 2007.

The following table summarizes warrant activity with non-employees that are expensed at fair value. All warrants are exercisable for common stock of the Company and expire through 2011.

	Shares	Weighted-Average Exercise Price
Outstanding warrants at June 1, 2004	45,625	$ 11.01
Warrants exercised during the year	(10,000)	9.43
Warrants granted during the year	13,000	18.19
Outstanding warrants at May 31, 2005	48,625	13.15
Warrants exercised during the year	(3,750)	5.50
Warrants granted during the year	11,000	17.61
Warrants forfeited during the year	(1,250)	5.50
Outstanding warrants at May 31, 2006	54,625	14.53
Warrants exercised during the year	(6,250)	10.48
Warrants granted during the year	8,000	20.30
Warrants forfeited during the year	(2,500)	14.15
Outstanding warrants at May 31, 2007	**53,875**	**$ 15.87**

Common stock totaling 100,000 shares is 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 compensations) 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 9,523, 10,865 and 6,895 in 2007, 2006 and 2005, respectively.

6. INCOME TAXES

The provision for income taxes consisted of the following:

Year ended May 31,	**2007**	2006	2005
Current:			
U.S. Federal and foreign	**$ 3,989,000**	$ 3,217,000	$ 1,824,000
State	**(52,000)**	296,000	334,000
Deferred	**813,000**	309,000	512,000
	$ 4,750,000	$ 3,822,000	$ 2,670,000

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,	**2007**	2006
Deferred income tax liabilities		
Depreciation and amortization	**$ (2,339,000)**	$ (2,274,000)
Intangible assets and other	**526,000**	293,000
	(1,813,000)	(1,981,000)
Deferred income tax assets		
Inventories and accounts receivable	**859,000**	1,522,000
Acquired net operating loss carry forwards	**300,000**	300,000
	1,159,000	1,822,000
Net deferred income tax liabilities	**$ (654,000)**	$ (159,000)

Net operating loss carry forwards resulting in a deferred tax asset of $300,000 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,	**2007**	2006	2005
Tax at U.S. statutory rates	**$ 4,756,000**	$ 3,698,000	$ 2,584,000
Tax credits and other	**28,000**	(68,000)	(134,000)
Provisions (credit) for state income taxes, net of federal benefit	**(34,000)**	192,000	220,000
	$ 4,750,000	$ 3,822,000	$ 2,670,000

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. Remaining anticipated cost of remediation through 2024 have been discounted at 4% and recorded within other long term liabilities in the consolidated balance sheet at its net present value of $935,000 at May 31, 2007. Estimated payments over the succeeding five years are $90,000 annually, with $1,080,000 due thereafter.

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 for was $1,124,000, $911,000 and $742,000 for 2007, 2006 and 2005, respectively.

The Company leases office and manufacturing facilities under noncancelable operating leases. Rent expense for 2007, 2006 and 2005 was $346,000, $239,000 and $205,000, respectively. Future minimum rental payments for these leases over the remaining terms are as follows: 2008 - $288,000; 2009 - $200,000 and 2010 - $30,000.

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 15% of compensation, 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 $409,000, $348,000 and $343,000 in 2007, 2006 and 2005, 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. Additionally, the Animal Safety segment produces and markets a line of rodenticides to assist in the control of rats and mice in and around agricultural, food production and other facilities.

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:

2007	Food Safety	Animal Safety	Corporate and Eliminations[1]	Total
Net sales to external customers	**$ 46,956,000**	**$ 39,182,000**	**$ –**	**$ 86,138,000**
Operating income	**9,619,000**	**4,845,000**	**(960,000)**	**13,504,000**
Depreciation and amortization	**1,952,000**	**888,000**	**–**	**2,840,000**
Interest income	**–**	**–**	**373,000**	**373,000**
Interest expense	**–**	**–**	**15,000**	**15,000**
Income taxes	**3,383,000**	**1,704,000**	**(337,000)**	**4,750,000**
Total assets	**55,426,000**	**39,104,000**	**10,754,000**	**105,284,000**
Expenditures for long-lived assets	**3,692,000**	**1,012,000**	**–**	**4,704,000**
2006				
Net sales to external customers	$ 34,951,000	$ 37,482,000	$ –	$ 72,433,000
Operating income	6,753,000	6,083,000	(2,031,000)	10,805,000
Depreciation and amortization	1,593,000	824,000	–	2,417,000
Interest income	–	–	80,000	80,000
Interest expense	–	–	283,000	283,000
Income taxes	2,369,000	2,134,000	(681,000)	3,822,000
Total assets	52,869,000	35,970,000	(549,000)	88,290,000
Expenditures for long-lived assets	2,049,000	643,000	–	2,692,000
2005				
Net sales to external customers	$ 28,156,000	$ 34,600,000	$ –	$ 62,756,000
Operating income	4,051,000	5,284,000	(1,883,000)	7,452,000
Depreciation and amortization	908,000	795,000	–	1,703,000
Interest income	–	–	7,000	7,000
Interest expense	–	–	83,000	83,000
Income taxes	1,423,000	1,857,000	(610,000)	2,670,000
Total assets	27,378,000	35,738,000	768,000	63,884,000
Expenditures for long-lived assets	1,828,000	860,000	–	2,688,000

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

Sales to customers outside the United States amounted to $32,727,000 or 38% of consolidated sales in 2007 and $20,750,000 or 29% of consolidated sales in 2006, $17,002,000 or 27% in 2005 and were derived primarily in the geographic areas of South and Central America, Canada, Asia and Europe. The Company has one Food Safety distributor customer with the revenues of 11.8%. No other customer had revenues in excess of 10% of consolidated net sales.

10. GOVERNMENT GRANT

The Company received a $500,000 grant from Ingham County in fiscal 2005 that was restricted for the purchase of machinery and equipment at its location in Lansing, Michigan. The grant was repayable in cash plus interest to the extent not offset by allowances for new employees hired in Lansing over a period of 6 years. Grant monies received from the County for eligible purchases were initially recognized as a long-term liability. The liability is reduced and other income was recognized for the allowances granted as eligible new employees were hired. The Company recognized other income of $250,000 in 2006 and 2005 related to the grant.

11. 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 May 31, 2006, 892,885 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately $5,226,000. There were no purchases in 2007 or 2006. Shares purchased under this buy-back program were retired.

12. SUMMARY OF QUARTERLY DATA (UNAUDITED)

	Quarter Ended			
	August 2005	November 2005	February 2006	May 2006
		(Restated)		
	(In thousands, except per share data)			
Net sales	$ 16,778	$ 18,256	$ 17,584	$ 19,815
Gross margin	8,841	9,490	8,522	10,153
Net income	1,987	1,937	1,386	1,719
Basic net income per share	0.24	0.23	0.17	0.21
Diluted net income per share	0.24	0.23	0.16	0.20

	Quarter Ended			
	August 2006	**November 2006**	**February 2007**	**May 2007**
	(In thousands, except per share data)			
Net sales	**$ 22,220**	**$ 22,189**	**$ 21,054**	**$ 20,675**
Gross margin	**10,320**	**11,709**	**10,950**	**11,584**
Net income	**2,406**	**2,426**	**1,990**	**2,303**
Basic net income per share	**0.27**	**0.26**	**0.22**	**0.24**
Diluted net income per share	**0.26**	**0.26**	**0.21**	**0.24**

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.

13. SUBSEQUENT EVENT

On July 26, 2007 the Board of Directors approved a 3-for-2 stock split for shareholders of record on August 15, 2007, in which shareholders of record will receive one additional share for each two shares held. The split will be effected in the form of a stock dividend and will be paid in newly issued Common Stock on September 4, 2007. No effect of this split has been reflected in these financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of Neogen Corporation,

The management of Neogen Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Neogen Corporation's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Neogen Corporation's management assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2007 under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on that assessment, management believes that, as of May 31, 2007 the Company's internal control over financial reporting is effective.

Neogen Corporation's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. This report appears below.

James L. Herbert	Richard R. Current
Chairman & CEO	Vice President & CFO

August 1, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

The Board of Directors and Stockholders of Neogen Corporation,

We have audited the accompanying consolidated balance sheets of Neogen Corporation (the Company) and subsidiaries as of May 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in note 1, the Company adopted Financial Accounting Standards Board statement No. 123 (R), Share – Based Payment following the modified retrospective method. As a result, prior year financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Neogen Corporation's internal control over financial reporting as of May 31, 2007, 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 1, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Grand Rapids, Michigan

August 1, 2007

The Board of Directors and Stockholders of Neogen Corporation,

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Neogen Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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.

In our opinion, management's assessment that Neogen Corporation and subsidiaries maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the fiscal 2007 consolidated financial statements of Neogen Corporation and subsidiaries and our report dated August 1, 2007 expressed an unqualified opinion thereon.

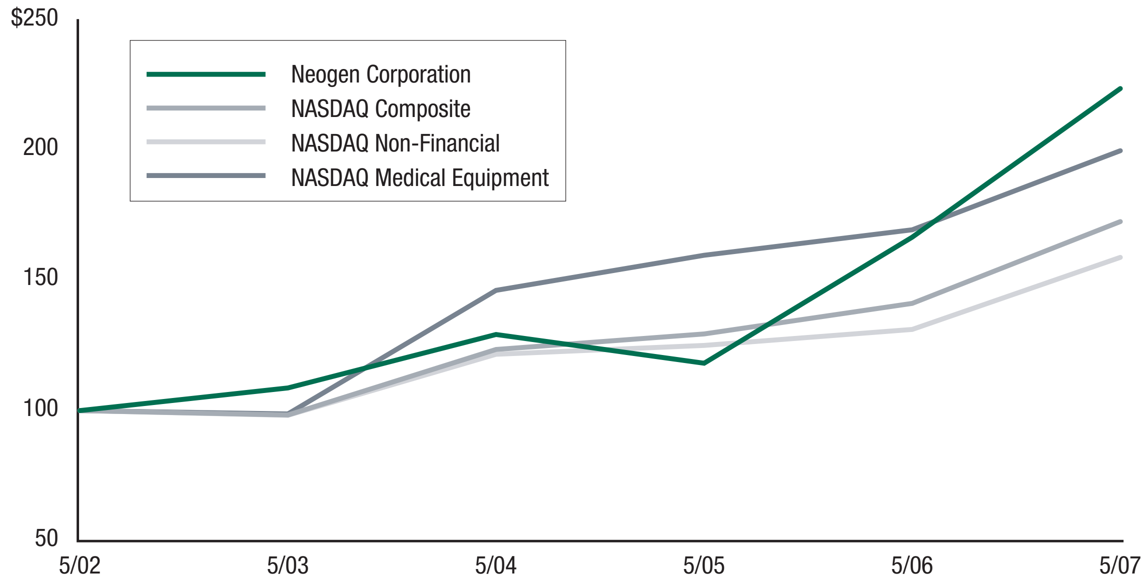
Ernst & Young LLP

Grand Rapids, Michigan

August 1, 2007

Comparison of Five Year Cumulative Total Return*

Among Neogen Corporation, The NASDAQ Composite Index,
The NASDAQ Non-Financial Index and The NASDAQ Medical Equipment Index



*$100 invested on 5/31/02 in stock or index, including reinvestment of dividends. Fiscal year ending May 31.

	5/02	5/03	5/04	5/05	5/06	5/07
Neogen Corporation	100.00	108.68	129.16	118.15	166.45	223.40
NASDAQ Composite	100.00	98.31	123.42	129.37	141.08	172.42
NASDAQ Non-Financial	100.00	98.21	121.58	124.97	131.10	158.71
NASDAQ Medical Equipment	100.00	98.73	146.07	159.52	169.28	199.58

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

STOCK PROFILE ACTIVITY

The Company's common stock is traded in the over-the-counter market and quoted in the NASDAQ National Market System under the symbol NEOG. Price ranges reported are based on inter-dealer sale quotations, as reported by NASDAQ, without adjustments for markups, markdowns, or commissions typically paid by retail investors, and may not represent actual transactions. No cash dividends have ever been paid, and the Company does not currently anticipate paying cash dividends in the foreseeable future. As of July 31, 2007, there were approximately 500 stockholders of record of Common Stock that management believes represents a total of approximately 5,000 beneficial holders.

Year Ended	Fiscal Quarter	High	Low
May 31, 2007	First Quarter	$21.00	$17.48
	Second Quarter	$22.09	$19.02
	Third Quarter	$23.60	$19.27
	Fourth Quarter	$27.50	$21.20
May 31, 2006	First Quarter	$17.40	$13.50
	Second Quarter	$20.48	$15.35
	Third Quarter	$23.15	$19.75
	Fourth Quarter	$25.22	$18.00

OFFICERS

James L. Herbert
Chairman of the Board
Chief Executive Officer

Lon M. Bohannon
President
Chief Operating Officer

Richard R. Current
Vice President
Chief Financial Officer & Secretary

Edward L. Bradley
Vice President, Food Safety

Kenneth V. Kodilla
Vice President
Manufacturing

Joseph M. Madden, Ph.D.
Vice President
Scientific Affairs

Anthony E. Maltese
Vice President
Corporate Development

Terri A. Morrical
Vice President, Animal Safety

Mark A. Mozola, Ph.D.
Vice President
Research and Development

Paul S. Satoh, Ph.D.
Vice President
Basic and Exploratory Research

DIRECTORS

James L. Herbert
Neogen Corporation
Chairman of the Board
Chief Executive Officer

Lon M. Bohannon
Neogen Corporation
President
Chief Operating Officer

Robert M. Book
Agrivista, Inc.
President
Elanco Products Company
Former Vice President

A. Charles Fisher
Dow AgroSciences
Former President & CEO

Gordon E. Guyer, Ph.D.
Michigan State University
Former President

G. Bruce Papesh
Dart, Papesh & Co.
President

Jack C. Parnell
Kahn, Soares & Conway
U.S. Department of Agriculture
Former Deputy Secretary

Thomas H. Reed
Packerland Packing Company
Special Assistant to the President

Clayton K. Yeutter, Ph.D.
Hogan & Hartson, LLP
Senior Advisor, International Trade
U.S. Department of Agriculture
Former Secretary

LEGAL COUNCIL

Lowe Law Firm, P.C.
2375 Woodlake Drive
Suite 380
Okemos, MI 48864

Fraser Trebilcock Davis & Dunlap, P.C.
1000 Michigan National Tower
Lansing, MI 48933

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young, LLP
Suite 1000
171 Monroe Avenue NW
Grand Rapids, MI 49503

FORM 10-K AND THE COMPANY'S CODE OF ETHICS

Copies of Form 10-K and the Company's Code of Ethics will be provided upon request without charge to persons directing their request to:

Neogen Corporation
Attention: Investor Relations
620 Lesher Place
Lansing, MI 48912

STOCK TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Co.
40 Wall Street
New York, NY 10005

ANNUAL MEETING

10:00 a.m.
October 11, 2007
University Club of Michigan State University
3435 Forest Road
Lansing, MI 48909

NEOGEN® CORPORATION

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