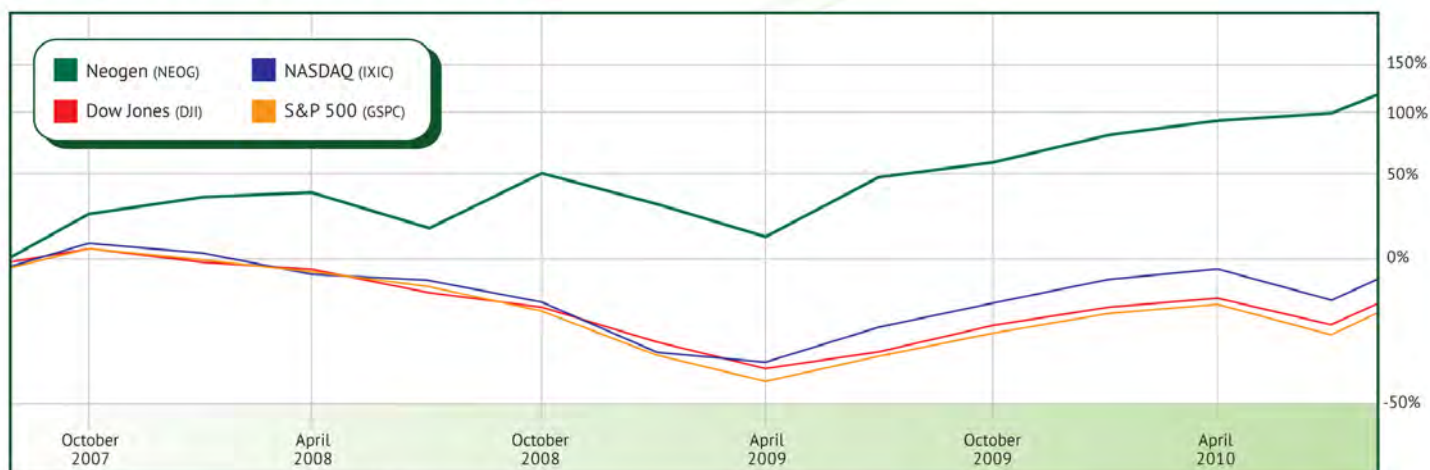


# Never Better. Never Satisfied.

Dedicated to food and animal safety since 1982



## NEOGEN STOCK PERFORMANCE



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## FINANCIAL HIGHLIGHTS

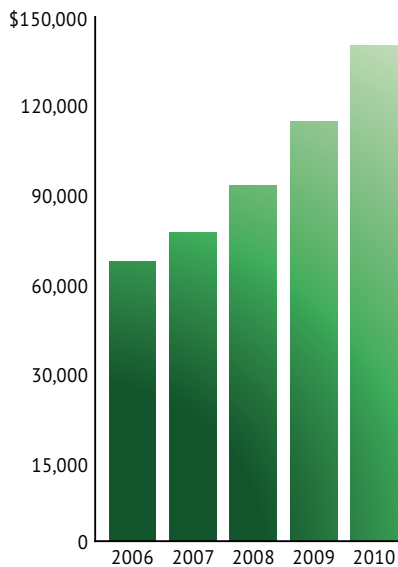
Amounts in thousands, except per share

Years Ended May 31,	2010	2009	2008	2007	2006
Operations:					
Total Revenues	\$140,509	\$118,721	\$102,418	\$86,138	\$72,433
Food Safety Sales	76,454	61,025	57,664	47,165	34,922
Animal Safety Sales	64,055	57,696	44,754	38,973	37,511
Operating Income	26,879	20,488	18,019	13,504	10,805
Net Income	\$17,521	\$13,874	\$12,098	\$9,125	\$7,029
Basic Net Income Per Share*	\$ .78	\$ .63	\$ .56	\$ .44	\$ .38
Diluted Net Income Per Share*	\$ .76	\$ .61	\$ .54	\$ .43	\$ .37
Average Diluted Shares Outstanding*	23,091	22,587	22,499	21,243	19,029

\*Restated for the years 2006–2009

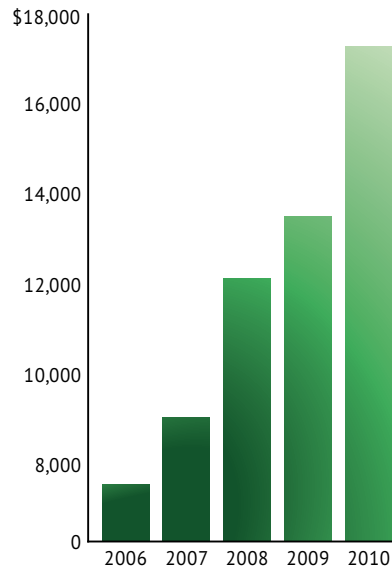
### TOTAL REVENUES

Dollars in thousands



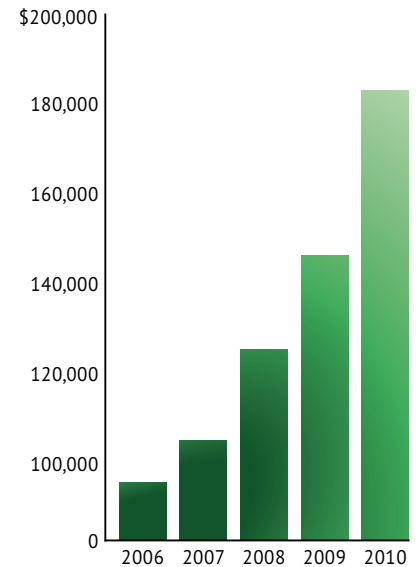
### NET INCOME

Dollars in thousands



### TOTAL ASSETS

Dollars in thousands



In thousands

May 31,	2010	2009	2008	2007	2006
Financial Strength:					
Cash and Cash Equivalents	\$22,806	\$13,842	\$14,270	\$13,424	\$1,959
Working Capital	68,987	62,520	54,495	41,060	26,252
Total Assets	180,233	142,176	126,357	105,284	88,290
Long-Term Debt	–	–	–	–	9,955
Stockholders' Equity	153,053	128,679	111,248	91,945	65,424

## **To Our Stockholders, Employees, and Friends:**

The 2010 fiscal year was another of those “never better” years for Neogen as we set new records for revenues, earnings, cash flow, synergistic acquisitions, and stock value. The year also leaves us convinced that Neogen’s opportunities to continue providing food and animal safety solutions have never been richer.

Credit for the year’s accomplishments should go to Neogen’s more than 600 dedicated employees, who found ways to continue our growth despite perhaps the toughest financial times to face our markets in 50 years.

### ***Continued Strong Growth***

Revenues for the year increased 18% to \$140.5 million. Even more noteworthy is the year’s net income results, which increased 26% to \$17.5 million, or to \$0.76 per share compared to \$0.61 a year ago.

The year also marked a continuation of our performance consistency as the fourth quarter was the 69<sup>th</sup> consecutive profitable quarter from operations and the 73<sup>rd</sup> of the past 78 to show revenue increases over the prior year—a record spanning over 19 years.

The exceptional 31% increase in operating profit compared to 18% revenue increase

shows Neogen’s cost-saving initiatives and greater economies of scale continue to provide increased shareholder return. This year’s operating income of over 19% of sales edged us closer to our goal of maintaining a 20% operating profit.

### ***Strong Cash Flow***

Our balance sheet continued to strengthen as we finished the year with \$22.8 million in cash, up \$9 million from FY ‘09—even though we made two acquisitions with available cash in the year. Also noteworthy was a 19% increase in shareholder equity at year-end as compared to the prior year.

### ***Both Divisions Solid***

Our Food Safety Division enjoyed a broad-based revenue increase of 25% compared to the prior year and total revenues reaching \$76.5 million. Only 3% of this division’s growth was non-organic, coming as a result of a mid-year acquisition. Cool, wet weather across part of the U.S. corn belt also led to increased demand for Neogen’s tests to detect mycotoxins.

Revenues from the Animal Safety Division grew 11% compared to the prior year to \$64 million, even though a majority of its customers continued to feel the effects of the depressed protein market and tough worldwide financial situation.

### ***Growth Strategy Continues***

Neogen continued to utilize its proven four-point growth strategy to achieve its FY ‘10 results. Market share gain, new product introduction, synergistic acquisitions, and international growth all played a role in our outstanding year.

A number of new products or product improvements were introduced during FY ‘10. Investment in R&D activities increased \$1.7 million as compared to the prior year, but it is at still less than 4.5% of revenues. Although some of the results of this 37% increase aided FY ‘10 results, most of the impact will not be felt until FY ‘11 and beyond.

### ***Acquisition Strategy Continues***

A second facet of Neogen’s continued growth has been its ability to identify and successfully integrate synergistic businesses. Over the past 10 years, Neogen has made 18 acquisitions, all of which have been truly synergistic to our business and continue to add to both revenue and profit growth.

In December, Neogen acquired the BioKits food safety product line from GenProbe, Inc., which had a number of food allergy tests not offered by Neogen. The acquisition also gave us an attractive line of meat speciation tests used primarily to prevent economic adulteration. Based in Deeside, Wales, the company had good market positions in several European countries that now add to our Scotland-based Neogen Europe operations. We have now essentially integrated the BioKits operations by mov-

# ***A Message from Management***

ing most of the manufacturing to Neogen’s Michigan-based operations and the remainder to Scotland. The Wales operation has been closed.

In April, we acquired the outstanding shares of GeneSeek, Inc. of Lincoln, Neb., the leading commercial agricultural genetics laboratory in the U.S. GeneSeek’s customers include many of the world’s largest animal and plant breeders and animal health companies. This acquisition considerably added to our genomic capability, and is expected to speed the development of food and animal diagnostic tests and intervention tools.

### ***International Growth Continues***

With currency translations neutral year over year, Neogen continued its international growth with 40% of revenues derived from sources outside the U.S. Our Neogen Europe subsidiary recorded revenue increases of 24% as compared to the prior year. Its revenue growth was broad-based throughout European Union countries, with a good mix of food safety diagnostic products.

Our Mexico-based operations, Neogen Latinoamérica, continued to gain traction, and its food and animal safety revenues will continue to be an important part of our international growth. Sales of our cleaners, disinfectants, and rodenticides showed strength in Mexico, Central and South America.

Though it has taken us a bit longer to obtain the registrations required for our Neogen do Brazil operations, these requirements are in place and that operation should be poised for nice growth in the coming year.

### Market Growth Strong

The fourth segment of our growth strategy is to keep pace with the worldwide food and animal safety market growth, while increasing our market share. Growth in markets and market share accounted for most of our FY '10 growth.

As the worldwide demand for increased production of quality food continues, food safety concerns from inside the farm gate to the dinner plate become a greater challenge. This has caused many of our markets to increase despite the financial circumstances faced by many of our customers. Our distribution into 118 countries last year has put us in a position to help solve food and animal safety problems wherever they might arise.

### Performance Was Rewarded

Neogen's performance during the past year did not go unheeded as our share price continued to increase. A 3-for-2 stock split in December rewarded loyal long-term investors, allowing them to convert the added shares into a nice cash dividend or to hold for growth. In fact, the share price increased over 25% in the seven months following the split.

During the year, Fortune Magazine once again named Neogen as one of the 100 fastest growing small public companies in America, and also named us to its prestigious list of one of the "40 stocks to retire on". Forbes again named Neogen one of America's best small public companies—for the eighth time in 10 years.

### Never Satisfied

Economists forecast that the world will need 30% more food by 2025. These demands for increasing food supply, while reducing costs, will require larger production and processing facilities. This means a larger concentration of animals in small areas, bigger and higher speed processing plants, and faster distribution systems. All of these demands increase the likelihood of food safety problems.

Regulatory requirements and intervention are being stepped up around the world. As an example, the U.S. now requires that most egg-producing chickens be tested repeatedly for *Salmonella*—only the second food product in our history to have mandated testing, the other being milk. A similar requirement is beginning to develop as the USDA issued draft guidelines for controlling *E. coli* on the farm, and the USDA is also now proposing the first-ever standards for *Campylobacter* contamination in poultry.

A number of similar activities are taking place in most of the world's developed regions, particularly in the European Union. For example, more pressure is being placed to keep drug residues out of meat and milk products because of concerns about antibiotic-resistant bacteria.

We have new products in the R&D pipeline that should address many new concerns. At the same time, expansion of our sales and marketing efforts should allow us to make market share gains. Our balance sheet continues strong with significant cash, no borrowing, and unused bank lines of credit. This should allow us to continue to take advantage of acquisition opportunities as they are identified.

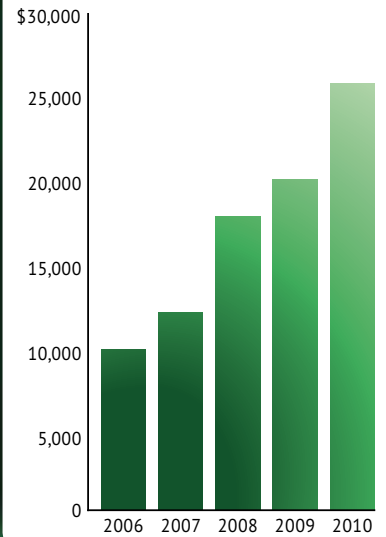
We believe the title of this Annual Report summarizes both the year we just completed, as well as the year ahead: **Never Better, Never Satisfied.**



Lon Bohannon and James Herbert

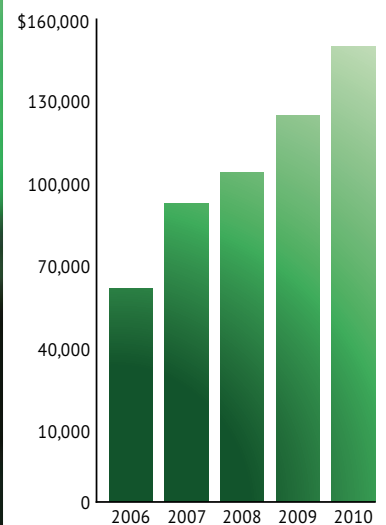
### OPERATING INCOME

Dollars in thousands



### STOCKHOLDERS' EQUITY

Dollars in thousands



James L. Herbert  
Chairman and CEO

Lon M. Bohannon  
President and COO



## *Never Better. Never Satisfied.*

**S**eemingly lost in the abundance of bad news about the global food supply is the amazing success of the world's food producers, processors, and distributors. Although the world's population has more than doubled in the last 50 years, the world's food production has more than kept pace. Today, even with a population approaching 7 billion, the quantity, quality and nutritional value of food available to the inhabitants of our planet continues to improve year in and year out.

Grain producers have escalated their production through use of advancements in crop irrigation, pest control, genetics, fertilization, harvesting, storage and transportation. The advancements in the grain industry have led directly to more plentiful, less-expensive grain-based foods, superior value animal protein products that rely heavily on grain-based feeds, and a large new ethanol fuel industry. Animal protein producers



have utilized similarly impressive advancements to dramatically increase the quantity and quality of their products.

By almost every objective, quantifiable measure, the world's available food supply has never been better.

But, the global food industry cannot be satisfied. Rising populations and diminishing natural resources point to difficult days ahead for sustaining the level of food production growth needed to nourish future generations. Highly efficient modern food production facilities can also increase the potential for outbreaks of foodborne diseases of a magnitude not previously possible.

To address the growing concerns, numerous food safety and animal safety initiatives have been undertaken by such organizations as the U.S. Food and Drug Administration (FDA), U.S. Department of Agriculture (USDA), European Food Safety Authority (EFSA), Health Canada, and the World Health Organization (WHO).

In the United States, the current administration is now considering how to upgrade the U.S. food safety system to address the considerable challenges that lie ahead. In summarizing the prevention-based approach to food safety now under consideration, the Secretary of Health and Human Services said: "Our farm-to-table prevention approach acknowledges the complexity and diversity of all the people and organizations involved in food production."

Neogen's ability to support the food industry has never been better, but like the industries it serves, Neogen can't afford to be satisfied. The increasingly plentiful and higher quality food supply needed by future generations will require more, and better, food and animal safety solutions.

Neogen's expanding capabilities to provide unique solutions for the food production and processing industries have never been better and now include:



well received by existing customers.

Neogen now offers screening and quantitative food allergen test kits to detect almond, egg, gliadin/gluten, hazelnut, casein, milk, mustard, peanut, sesame, shellfish, soy, lupine, and walnut residues.



Reveal® 3-D allergen tests (formerly BioKits RAPID tests)

Since their introduction in 1998, Neogen's rapid tests for food allergens have set the standard for simple and quick detection of these potentially dangerous residues. Unfortunately, the unintentional inclusion of food allergens into non-allergenic foods remains a leading cause of food recalls and millions of food allergic people worldwide face dire consequences should they accidentally ingest a food allergen residue.

### *Detecting Mycotoxins*

Neogen's comprehensive line of tests for mycotoxins in grains and animal feeds help protect the health of poultry, swine, and dairy cattle—and the quality and safety of the food products derived from numerous commodity grains. Mycotoxins have been shown to have long-term adverse health effects in humans, and can kill livestock and pets if ingested in sufficient quantities.

The company now offers tests for six mycotoxins in several different formats, including incredibly

***Neogen Corporation's food and animal safety mission, which was first developed 28 years ago, is built on an understanding of the complexity and diversity of everything involved in addressing food safety from inside the farm gate to the food plate.***

### *Detecting Food Allergens*

Neogen's December 2009 acquisition of BioKits food allergen test kits added to the company's already market-leading position for rapid and accurate food allergen diagnostics. The BioKits business added new food allergen tests to Neogen's existing product line as well as a new user-friendly format that has been

easy tests that function like home pregnancy stick tests, and can deliver definitive, easy-to-interpret results in as little as five minutes. The almost immediate results provide grain elevator staff, and quality control personnel in the food and feed industries with the solution they need to help prevent contaminated ingredients from entering the food chain.

Outbreaks in recent years, including a large outbreak of vomitoxin (DON) in the 2009 U.S. corn crop, show that testing for mycotoxins remains as important as ever, and that Neogen stands as ready as ever to deliver the leading testing products and expertise needed by grain producers and processors.



Reveal® for DON SQ

### Detecting Drug Residues

A May 2009 acquisition of International Diagnostic Systems Corp. (IDS) bolstered Neogen's offerings of test kits to detect drug residues in food and animal feed, and to detect drugs in forensic and eventing animal applications.

Neogen remains a worldwide leader in providing rapid drug residue tests to protect the integrity of animal racing, and ensure the safety of meat and milk products. Neogen now has a vast array of drug residue tests used in food and animal safety markets, and also for certain research and forensic applications.

Neogen expanded its line of products developed for the worldwide dairy industry to include the quickest single test available to simultaneously detect beta-lactam and tetracycline antibiotic residues in milk—BetaStar® Combo.

As the use of both tetracycline and beta-lactam antibiotics for the management of infections in dairy herds has grown in certain regions of the world, so has the need for a single test to simultaneously detect both groups of antibiotics.



BetaStar® Combo kit

Neogen has a number of ongoing projects aimed at developing new tests to detect drug residues in food and animal safety applications throughout the world.

### Detecting Foodborne Pathogens

Neogen's tests for dangerous bacteria, including *E. coli* O157:H7, *Salmonella*, and *Listeria*, provide speed and accuracy in simple to use formats for end users. Neogen's tests and dedicated staff of support microbiologists help food producers protect their brands, and reputation, from possibly the biggest risk they face in the marketplace—shipping products tainted with a life-threatening organism.

Regulatory requirements and intervention are increasing in the U.S. and around the world to minimize the risks from foodborne pathogens. As an example, a new rule concerning *Salmonella* contamination in eggs recently went into effect in the U.S. If a sample of shell eggs test positive for *Salmonella enteritidis*, all eggs from the production facility must be broken and pasteurized to kill any *Salmonella* organisms before they may be legally marketed.

Regulatory agencies worldwide are also studying and proposing new guidelines to further protect consumers from food contaminated with dangerous pathogens, including actions being taken to test for additional pathogenic strains of *E. coli*, and the first-ever standards for *Campylobacter* contamination in poultry.

Neogen has active research and development programs working in the area of pathogen detection, while its Acumedia® dehydrated culture media subsidiary is on the forefront of developing and optimizing growth media for microorganisms. The company's Center for Microbiological Excellence near its corporate headquarters facilitates research and technical support for its microorganism product lines.





*Neogen has a number of ongoing projects aimed at developing new tests to detect drug residues in food and animal safety applications throughout the world.*



### **Detecting Spoilage Organisms**

While product contaminated with spoilage organisms, such as yeast and mold, do not carry consequences of the severity of pathogen contamination, spoilage organisms can drastically shorten product shelf-lives, and produce a variety of unwanted effects.



Soleris® test vials

Neogen's Soleris® technology is now used by hundreds of the world's largest food and nutraceutical manufacturers to detect spoilage organisms in a fraction of the time needed for traditional testing methods. For example, testers using Soleris can measure a sample's yeast and mold count in as little as 60 hours, compared to the five days for conventional methods.

The Soleris technology provides industry an economic value added solution to help producers supply quality products more quickly and efficiently than can be done with alternative test methods. Neogen is invest-

ing additional research funds in develop of new tests for the unique and proprietary Soleris technology.

### **Sanitation Monitoring**

Neogen's October 2009 release of an improved version of its already popular AccuPoint® ATP Sanitation Monitoring System provided an even more valuable tool to monitor the effectiveness of the sanitation programs for producers and processors in many different market segments.



The new AccuPoint® 2 Sanitation Monitoring System

ATP (adenosine triphosphate) sanitation monitoring systems have evolved into the current "gold standard" for food and beverage production facilities to monitor their sanitation efforts. Using an ATP system is an easy and quick gauge of a facility's cleanliness, and is





GeneSeek's Agrigenomic services offer cost-effective genotyping and analysis.

easily customized for the specific equipment, people, product, and processes used in any food facility.

The simplicity of Neogen's ATP monitoring system makes it a valuable tool throughout the food industry, including food service providers, caterers and grocery delis, and manufacturers of soft drinks and bottled water.

### ***Using Genomics to Further Food and Animal Safety***

Neogen added to its genomic capability through its April 2010 acquisition of GeneSeek, the leading commercial agricultural genetics laboratory in the United States.

GeneSeek employs cutting-edge technology in the area of genomics. The technology utilizes high-resolution DNA genotyping for identity and trait analysis of a variety of important animal and agricultural plant species through the use of single nucleotide polymorphism discovery and analysis. GeneSeek helps its customers speed genetic improvement efforts, as well as identify economically important diseases inside the farm gate.

GeneSeek is not involved in cloning or the development of transgenic animals. Instead, the results of its



technology allow the acceleration of natural selection through selective breeding of traits such as disease resistance and meat quality.

Combining the capabilities of Neogen and GeneSeek is expected to speed the development of food and animal safety diagnostic tests, as well as speed the development of novel intervention tools to help solve existing and emerging food and animal safety problems.

### ***Controlling Rodents***

Neogen's broad-based food and animal safety mission was built with the understanding that otherwise wholesome food and feed supplies face numerous safety challenges while still in the field or inside the farm gate, and during every step of its way to the consumer.

Neogen's recent introduction of its fifth rodenticide compound, Di-Kill™, added to its arrays of effective products to control rats and mice in and around buildings, and grain storage facilities. The new rodenticide can be used independently, or as part of Neogen's rotational baiting program to maximize its effectiveness by systematically varying the rodenticide offered to rodents.

Despite man's best efforts, rats and mice remain a serious threat to the quantity and quality of food and feed-stuffs, and are common vectors in the spread of disease. Neogen's proven line of rodenticides is used for effective control of rodent infestations and is often a critical component of food safety inside the farm gate.

### ***Producing Precision Veterinary Products***

Today's multi-national producers of poultry and livestock produce animals on a much larger scale than ever before to help satisfy increasing demand. Neogen's Ideal® Instruments subsidiary, founded in 1931, maintains a leadership role in the development of precision veterinary drug delivery instruments to help minimize drug residues that might otherwise find their way into meat and milk supplies. Neogen's line of pat-



ented detectable needles greatly lessen the chance that a broken needle would ever arrive at the dinner table in a roast, or similar thick cut of beef or pork.

Neogen's animal safety efforts extend to both sides of the farm gate with safety solutions for performance and companion animals. The company manufactures and markets pharmaceuticals, vaccines, and diagnostic products to

the worldwide animal safety market. The company's equine health products include EqStim®, a proven, safe immunostimulant, being used to boost the immune response of horses to help combat respiratory ailments. Neogen's BotVax® B has protected thousands of horses against *Clostridium botulinum* type B.



Detectable D3  
Needles™

### ***Controlling Animal Disease***

High quality meat, poultry and dairy products require healthy livestock herds and flocks. To provide consumers the best meat, poultry and dairy products possible, producers have improved animal management practices, and included veterinary supplements, electrolytes, and vitamins to the diets of animals. Healthy animals require less medication and are



Neogen offers a comprehensive line of rodenticides, disinfectants and cleaners.

more resistant to disease. Neogen's disinfectants and veterinary topicals also play a significant role in improving both animal and food safety.

Neogen's disinfectants and cleaners broaden the company's comprehensive list of preventative products for animal producers and veterinary clinics. Especially in light of pork, turkey, chicken, and dairy production units becoming larger throughout the world, stopping a bacterial, viral, or fungal outbreak before it can start is critical.

***Satisfying the global demand for food in years to come will require enhanced animal safety inside the farm gate, increased agricultural output, and improved food safety and security every step of the way from farm to fork.***

The food industry's ability to produce safe and plentiful food, and Neogen's ability to support the food industry with unique solutions for food and animal safety, has never been better. But, like the industry it serves, Neogen is not content to rest on its laurels and be satisfied with its success.

Neogen stands ready to help satisfy the increasing demand for food with more, and better, food and animal safety solutions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations contains both historical financial information and forward-looking statements. Neogen 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 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.

#### *Goodwill and Other Intangible Assets*

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 2010 and it was determined that no impairment exists. There was also no impairment indicated for 2009 or 2008. In the event of changes in circumstances that indicate the carrying value of these assets may not be recoverable, management will make an assessment at any time. Factors that could cause an impairment review to take place would include:

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

When management determines that the carrying value of definite-lived intangible assets may not be recoverable based on the existence of one

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

or more of the above indicators of impairment, the carrying value of the definitive-lived intangible assets are compared to their value determined by using undiscounted future cash flows. If the carrying amounts of these assets are greater than the amount of undiscounted future cash flows expected to be generated by the assets, such assets are reduced to their estimated fair value.

### *Equity Compensation Plans*

ASC 718 - Compensation – Stock Compensation, (ASC 718) requires that stock options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company's stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model using assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

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

### *Business Combinations*

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to the valuation of intangible assets and the determination of the acquisition date fair value of liabilities arising from contingent consideration. Further, contingent consideration classified as an asset or a liability is remeasured to fair value at each reporting date until the contingency is resolved. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets and contingent consideration liabilities we have acquired include but are not limited to:

- Future expected cash flows from sales, other customer contracts and acquired developed technologies and patents;
- The acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and
- Discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

## RESULTS OF OPERATIONS

### *Executive Overview*

For the 2010 fiscal year the Company reported an 18% increase in revenues as compared to the prior fiscal year and a continuation of its record of profitability. Revenues for 2010 were \$140,509,000, up from \$118,721,000. Net income per share was \$0.76 in 2010, compared to \$0.61 in the prior year, adjusted for the stock split that took place in December 2009. Both revenues and net income for the 2010 year established new all-time highs. These results came in a very difficult business environment. The Company's business has shown continued resilience to the economic conditions and despite the worldwide turmoil in economic and currency markets, the Company's percentage of sales from customers outside the United States approached 40% of total revenues. Cash flow from operations for 2010 improved to \$28 million, as the Company has implemented procedures and systems to better manage inventory and other current asset levels.

Neogen Europe recorded a 24% revenue gain, following a 26% gain in 2009. Two acquisitions were completed during the year that should be synergistic to the existing product offerings. The BioKits acquisition pushed the food allergen product line to another outstanding growth year, with increasing sales by more than 50%. The GeneSeek acquisition made late in the fiscal year is expected to have a positive impact on future revenues as revenues of GeneSeek were approximately \$12 million in the twelve months before purchase.

Consolidated gross margins increased 200 basis points in 2010 to 52% due to product mix and cost containment. Operating expenses as a percentage of revenues remained unchanged from 2009 at 33% but operating margins increased as a result of improved gross margins.

The Company's financial performance continued to gain increased notice in the investment community in the past year. It continued its inclusion in the Russell 2000 Index, and was named to the Standard and Poor's 600 Healthcare Index, Fortune's "40 Stocks to Retire On", Fortune's Small Business 100, and to Forbes Magazine's annual list of the 200 Best Small Companies in America, for the fifth consecutive year and eighth time in the last 10 years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### REVENUES

(In thousands)	Twelve Months Ended				
	May 31, 2010	Increase/ (Decrease)	May 31, 2009	Increase/ (Decrease)	May 31, 2008
<b>Food Safety:</b>					
Natural Toxins, Allergens and Drug Residues	\$ 39,338	28%	\$ 30,667	6%	\$ 29,036
Bacterial and General Sanitation	19,545	5%	18,539	10%	16,866
Dry Culture Media and Other	17,571	49%	11,819	1%	11,762
	<b>76,454</b>	<b>25%</b>	<b>61,025</b>	<b>6%</b>	<b>57,664</b>
<b>Animal Safety:</b>					
Life Sciences and Other	8,998	57%	5,730	3%	5,567
Vaccine	2,329	6%	2,207	-	2,197
Rodenticides and Disinfectants	24,160	18%	20,491	99%	10,318
Veterinary Instruments and Other	28,568	(2%)	29,268	10%	26,672
	<b>64,055</b>	<b>11%</b>	<b>57,696</b>	<b>29%</b>	<b>44,754</b>
Total Revenues	<b>\$ 140,509</b>	<b>18%</b>	<b>\$ 118,721</b>	<b>16%</b>	<b>\$ 102,418</b>

#### *Year Ended May 31, 2010 Compared to Year Ended May 31, 2009*

The Company's Food Safety segment recorded a broad-based 2010 revenue increase of 25% to \$76,454,000. Organic sales growth for this segment was 22% in the year ended May 31, 2010.

The increase in Natural Toxins, Allergens and Drug Residues resulted from strong organic sales and the contributions of the BioKits food allergen product line that was acquired in December 2009. The allergen product line had another outstanding year of growth, with sales increasing by 57%. The dramatic increase in sales of each of Neogen's allergen tests is attributable to the aforementioned acquisition and to food producers increasing efforts to ensure that inadvertent allergenic ingredients do not contaminate non-allergenic foods. Sales of Food Safety's oldest product line, its rapid tests to detect natural toxins in grain, also saw significant improvement for the year, as tests for aflatoxin and deoxynivalenol (DON) improved by 40% compared to the prior year. Cool wet weather combined with an early frost experienced in the U.S. corn belt in 2009, led to sharp increases in demand for tests to detect these toxins. However, continued worldwide interest in toxin levels in human food and animal feed has positively affected sales. Dollar sales of tests to detect drug residues increased by 24% from the prior year, as worldwide concern continued to increase.

Bacterial and General Sanitation sales had a good year despite several products that require the customer to make a capital investment, including AccuPoint® readers and Soleris® microbial detection instruments. Sales of these products slowed in 2009 and in 2010 due to the impact of the economic downturn. However, sales of associated disposable AccuPoint samplers and Soleris vials continued strong growth—providing evidence of the continued use and acceptance of these unique Food Safety products.

Dry Culture Media and Other increased significantly during the year as a result of the continued efforts of the sales and marketing staff in executing their sales plan and in gaining and re-gaining new customers.

Revenues from the Company's Animal Safety segment grew 11% in 2010 compared to the prior year. The successful integration of the acquired DuPont line of disinfectants and cleaners, IDS drug residue diagnostics and GeneSeek, contributed significantly to Animal Safety's revenue growth for the year. Organic growth was 4% in a very difficult overall market.

Life Sciences and Other sales increased by 57% in 2010, primarily due to the successful integration of the IDS product line acquired in May 2009 and the GeneSeek acquisition in April 2010. Organic sales increases of the Life Sciences and Other products were limited as customers were affected by the economic downturn.

Sales of Neogen's veterinary biologics, which include an equine vaccine against botulism and immune stimulant products were up 6% for the year. Sales of vitamin injectibles into the livestock market were up 13% over the prior year. Evidence of the synergistic nature of the IDS diagnostic tests to pre-existing Neogen products was shown as we experienced an 18% increase in 2010 in same-store sales of tests to detect drug residues for the forensic market.

Even though a number of the Animal Safety customers continue to feel the effects of a depressed animal protein market, this division did experience strong increases in sales of a number of products. Sales of rodenticides into domestic markets increased 27% on a year over year basis. Sales into international markets of the same products increased 25%, as Neogen continues to grow its market share and new products gain market acceptance. Sales of Neogen's line of cleaners and disinfectants also grew 10% in the year. The Company's efforts to market its products as synergistic biosecurity solutions are gaining more traction.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Veterinary Instruments and Other sales decreased by 2% in 2010 in comparison with 2009 as many of these products are ultimately used by customers involved in the production of animal protein. This group of customers has been especially hit hard by the economic recession.

### *Year Ended May 31, 2009 Compared to Year Ended May 31, 2008*

In 2009, sales of Natural Toxins, Allergens and Drug Residues increased by 6% in comparison with FY 2008. Increases from allergen product lines were in excess of 40% and were the result of increased efforts by food producers to ensure that inadvertent allergenic ingredients do not contaminate non-allergen foods. Bacterial and General Sanitation products increased by 10% in FY 2009, as the AccuPoint ATP general sanitation test continued to gain momentum, domestically and internationally.

Dry Culture Media and Other sales increased by 1% in FY 2009 as compared with FY 2008, as the Company focused their efforts on customer service following a large increase in the prior year.

Within the Animal Safety segment, sales of Life Sciences and Other Products increased by 3% in 2009 in comparison with 2008. Increases in 2009 were due to new direct international customers and instrument placements for forensic customers, sales of substrates and diagnostic research kits. Many of products in this category are sold into the worldwide eventing animal industry. These customers have been highly affected by the economic downturn. Vaccine sales remained unchanged for the year due to the timing of purchases by key domestic and international distributor purchasers.

Sales of Hacco rodenticides and disinfectants increased by 99% in 2009, primarily based on the successful acquisition and integration of the DuPont product lines.

Veterinary Instruments and Other sales increases were broad based in 2009 and included significant contributions in the disposables product lines, experiencing large increases in the retail and integrator markets.

## COST OF GOODS SOLD

(In thousands)	2010	Increase	2009	Increase	2008
Cost of Goods Sold	\$ 67,534	14%	\$ 59,288	21%	\$ 49,185

Cost of goods sold increased by 14% in 2010 and by 21% in 2009 in comparison with the prior year. This compares against a 18% and 16% increase in revenues in 2010 and in 2009. Expressed as a percentage of revenues, cost of goods sold was 48%, 50% and 48% in 2010, 2009, and 2008 respectively. 2010 margins increased as a result of favorable product mix and cost containment.

Food Safety gross margins were 64%, 63% and 63% in 2010, 2009 and 2008, respectively. Changes in margins between periods relate primarily to changes in product mix. Margins improved from 2009 from the effects of efficiencies resulting from investments in manufacturing facilities and equipment.

Animal Safety gross margins were 38%, 37% and 38% in 2010, 2009 and 2008, respectively. Changes in margins between periods relate primarily to product mix.

## OPERATING EXPENSES

(In thousands)	2010	Increase	2009	Increase	2008
Sales and Marketing	\$ 26,350	15%	\$ 22,906	11%	\$ 20,648
General and Administrative	13,488	17%	11,484	5%	10,927
Research and Development	6,258	37%	4,555	25%	3,639

Sales and marketing expense categories increased by 15% in 2010 and by 11% in 2009 as compared with the prior year. As a percentage of sales, sales and marketing expense remained at 19% in 2010 as compared to 19% in 2009 and 20% in 2008. Management plans to continue to expand the Company's sales and marketing efforts both domestically and internationally and currently expects related expenses to remain approximately 20% as expressed as a percentage of sales.

General and administrative expenses increased by 17% in 2010 and by 5% in 2009. These expenses have decreased from 11% to 10%, as a percentage of sales, over the past three fiscal years. Dollar increases in 2010 and 2009 resulted primarily from the acquisitions as well as due to increased levels of operations and added amortization related to businesses acquired. Percent decreases resulted from the fixed nature of many of these expenses.

Research and development expenses increased by 37% in 2010 and 25% in 2009 in comparison with 2009 and 2008. As a percentage of revenue these expenses were 4% in each of the years ended May 31, 2010, 2009 and 2008, respectively. Although some fluctuation in research and development expenses will occur, management expects research and development expenses to approximate 4-6% of revenues over time. These expenses

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

approximate 8% to 10% of revenues from products and product lines that are supported by research and development. Certain Company products require relatively less investment in research and development expenses.

### OPERATING INCOME

(In thousands)	2010	Increase	2009	Increase	2008
Operating Income	\$ 26,879	31%	\$ 20,488	14%	\$ 18,019

During fiscal year 2010 and 2009, the Company's operating income increased by 31% and 14% as compared to the respective prior year. As a percentage of revenues it was 19%, 17% and 18% in 2010, 2009 and 2008 respectively. The Company has been successful in improving its operating income in 2010 and 2009 from revenue and gross margin growth from existing products and acquisitions and from control of distribution and administrative costs.

### OTHER INCOME (NET)

(In thousands)	2010	(Decrease)	2009	Increase	2008
Other Income - Interest and Other (Net)	\$ 442	(61%)	\$ 1,136	137%	\$ 479

Other income decreased by 61% in comparison with 2009 and increased by 137% in 2009 in comparison with 2008. Interest income is a result of the Company's increase in cash and cash equivalent cash position in the periods offset by decreased interest rates. The Company follows a very conservative investment philosophy that in the current market results in rates of less than 1%. Investment earnings were \$81,000 in 2010, \$258,000 in fiscal 2009 and \$442,000 in 2008. In 2010 and in 2009 other income also included \$181,000 and \$429,000 in royalty income and \$80,000 in 2010 and \$355,000 in 2009 of gains from foreign currency transactions. In general no such other income was earned in 2008.

### FEDERAL AND STATE INCOME TAXES

(In thousands)	2010	Increase	2009	Increase	2008
Federal and State Income Taxes	\$ 9,800	26%	\$ 7,750	21%	\$ 6,400

Expressed as a percentage of income before tax, the tax provision was 36% in 2010, 36% in 2009 and 35% in 2008. Fluctuations in the tax rate is the result from an increase of the Company's federal tax rate to 35%, the localities where income is earned in any year and tax credits. Other than rate, the increase in the tax provision is primarily a function of the increase in pre-tax income of the Company.

### NET INCOME AND NET INCOME PER SHARE

(In thousands, except per share)	2010	Increase	2009	Increase	2008
Net Income	\$ 17,521	26%	\$ 13,874	15%	\$ 12,098
Net Income Per Share - Basic	\$ .78		\$ .63		\$ .56
Net Income Per Share - Diluted	\$ .76		\$ .61		\$ .54

Net income and net income per share increased by 26% in 2010 and 15% in 2009 in comparison with the prior years. As a percentage of revenue, net income was 12%, in each year. All of the above factors contributed to the increase in net income.

### 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;
- Maintaining gross and net operating margins in changing cost environments;
- Strengthening sales and marketing activities in geographies outside of the U.S.;



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- 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, 2010, the Company had \$22,806,000 in cash and cash equivalents, working capital of \$68,987,000 and stockholders' equity of \$153,053,000. In addition to cash and cash equivalents, a bank line with unused borrowings of \$10,000,000 was available to support ongoing operations or to make acquisitions.

Cash and cash equivalents increased \$8,964,000 during 2010. Cash provided from operations was \$27,988,000 and stock option exercise proceeds provided an additional \$5,900,000 of cash. Additions to property and equipment and other non-current assets used cash of \$5,431,000.

Accounts receivable increased \$4,070,000 or 17% when compared to May 31, 2009. This resulted from increased sales, as a result of organic sales growth and acquisitions offset by some decrease of average days outstanding. These accounts are being actively managed and no losses thereon in excess of amounts reserved are currently expected. Days sales outstanding decreased from 60 days at May 31, 2009 to 59 days at May 31, 2010.

Inventory levels decreased by less than 1% or \$47,000 in 2010 as compared to 2009. Despite higher levels of sales and acquisitions, management was able to maintain a program to decrease inventory on hand while supplying the customers with shipments within 48 hours of placing an order. The Company continued programs aimed at reducing inventory and expects to continue those programs into the future.

The Company has no construction in progress and facilities are generally believed to be adequate to support existing operations in the short run.

Neogen has been profitable from operations for its last 69 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.

### 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	665	313	352	-	-
Unconditional Purchase Obligations	13,850	13,850	-	-	-
	<u>\$ 14,515</u>	<u>\$ 14,163</u>	<u>\$ 352</u>	<u>\$ -</u>	<u>\$ -</u>

### NEW ACCOUNTING PRONOUNCEMENTS

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

## NEOGEN CORPORATION AND SUBSIDIARIES: CONSOLIDATED BALANCE SHEETS

May 31,	2010	2009
(In thousands)		
<i>Assets</i>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 22,806	\$ 13,842
Accounts receivable, less allowance of \$600 at May 31, 2010 and 2009	27,433	23,363
Inventories	31,316	31,363
Deferred income taxes	774	200
Prepaid expenses and other current assets	3,691	2,998
<b>Total Current Assets</b>	<b>86,020</b>	<b>71,766</b>
<b>Property and Equipment</b>		
Land and improvements	1,181	1,175
Buildings and improvements	13,330	11,184
Machinery and equipment	19,474	17,008
Furniture and fixtures	767	806
	<b>34,752</b>	<b>30,173</b>
Less accumulated depreciation	15,572	13,115
<b>Net Property and Equipment</b>	<b>19,180</b>	<b>17,058</b>
<b>Other Assets</b>		
Goodwill	52,899	39,717
Other non-amortizable intangible assets	4,139	3,730
Amortizable customer-based intangibles, net of accumulated amortization of \$4,002 and \$2,861 at May 31, 2010 and 2009	13,021	6,143
Other non-current assets, net of accumulated amortization of \$1,822 and \$1,663 at May 31, 2010 and 2009	4,974	3,762
<b>Total Other Assets</b>	<b>75,033</b>	<b>53,352</b>
	<b>\$ 180,233</b>	<b>\$ 142,176</b>
<i>Liabilities and Equity</i>		
(In thousands, except share and per share)		
<b>Current Liabilities</b>		
Accounts payable	\$ 7,187	\$ 3,909
Accruals		
Compensation and benefits	2,346	2,519
Federal income taxes	2,838	667
Other	4,662	2,151
<b>Total Current Liabilities</b>	<b>17,033</b>	<b>9,246</b>
<b>Deferred Income Taxes</b>	<b>5,824</b>	<b>2,725</b>
<b>Other Long-Term Liabilities</b>	<b>4,323</b>	<b>1,526</b>
<b>Total Liabilities</b>	<b>27,180</b>	<b>13,497</b>
<b>Equity</b>		
Preferred stock, \$1.00 par value - shares authorized 100,000; none issued and outstanding	-	-
Common stock, \$0.16 par value - shares authorized 30,000,000; 22,625,399 and 22,105,329 shares issued and outstanding at May 31, 2010 and 2009	3,621	3,537
Additional paid-in capital	69,550	61,535
Accumulated other comprehensive loss	(1,676)	(430)
Retained earnings	81,170	63,611
<b>Total Neogen Corporation and Subsidiaries Stockholders' Equity</b>	<b>152,665</b>	<b>128,253</b>
Non-controlling interest	388	426
<b>Total Equity</b>	<b>153,053</b>	<b>128,679</b>
	<b>\$ 180,233</b>	<b>\$ 142,176</b>

## NEOGEN CORPORATION AND SUBSIDIARIES: CONSOLIDATED STATEMENTS OF INCOME

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

See accompanying notes to consolidated financial statements.

## NEOGEN CORPORATION AND SUBSIDIARIES: CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Equity
	Shares	Amount					
Balance, June 1, 2007	21,031,209	\$ 3,365	\$ 50,577	\$ 386	\$ 37,617	\$ -	\$ 91,945
Exercise of options and warrants, net of share based compensation, including \$747,000 income tax benefit	724,440	116	6,827				6,943
Issuance of shares under Employee Stock Purchase Plan	21,767	3	224				227
Comprehensive Income:							
Net income for 2008					12,098		12,098
Foreign currency translation adjustments				35			35
Total Comprehensive Income							12,133
Balance, May 31, 2008	21,777,416	3,484	57,628	421	49,715	-	111,248
Exercise of options and warrants, net of share based compensation, including \$682,000 income tax benefit	382,782	62	4,523				4,585
Issuance of shares under Employee Stock Purchase Plan	19,815	3	295				298
Repurchase and retirement of common stock	(74,684)	(12)	(911)				(923)
Noncontrolling interest attributable to acquisition of majority-owned subsidiary						448	448
Comprehensive Income:							
Net income (loss) for 2009					13,896	(22)	13,874
Foreign currency translation adjustments				(851)			(851)
Total Comprehensive Income							13,023
Balance, May 31, 2009	22,105,329	3,537	61,535	(430)	63,611	426	128,679
Exercise of options and warrants, net of share based compensation, including \$709,000 income tax benefits	500,242	80	7,687				7,767
Issuance of shares under Employee Stock Purchase Plan	19,828	4	328				332
Comprehensive Income:							
Net income (loss) for 2010					17,559	(38)	17,521
Foreign currency translation adjustments				(1,246)			(1,246)
Total Comprehensive Income							16,275
<b>Balance, May 31, 2010</b>	<b>22,625,399</b>	<b>\$ 3,621</b>	<b>\$ 69,550</b>	<b>\$ (1,676)</b>	<b>\$ 81,170</b>	<b>\$ 388</b>	<b>\$ 153,053</b>

See accompanying notes to consolidated financial statements.

## NEOGEN CORPORATION AND SUBSIDIARIES: CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to consolidated financial statements.

# NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF ACCOUNTING POLICIES

### *Nature of Operations*

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

### *Basis of Consolidation*

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

All intercompany accounts and transactions have been eliminated in consolidation.

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

### *Use of Estimates*

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

### *Comprehensive Income*

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

### *Accounts Receivable and Concentrations of Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. One customer accounted for more than 10% of accounts receivable at May 31, 2010 and 2009. As of May 31, 2010 and 2009 the balance due from that customer was \$2,608,000 or 10% and \$2,879,000 or 12%, respectively of the total of all outstanding accounts receivables.

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

### *Fair Value of Financial Instruments*

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

### *Cash and Cash Equivalents*

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

### *Inventories*

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

(In thousands)	2010	2009
Raw materials	\$ 11,815	\$ 11,183
Work-in-process	1,958	1,425
Finished and purchased goods	17,543	18,755
	<b>\$ 31,316</b>	<b>\$ 31,363</b>

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### *Property and Equipment*

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to 39 years for buildings and improvements and three to five years for furniture, machinery and equipment. Depreciation expense was \$2,734,000, \$2,560,000, and \$2,360,000 in 2010, 2009 and 2008, respectively.

### *Goodwill and Other Intangible Assets*

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. In general, goodwill is amortizable for tax purposes over 15 years. Other intangible assets include customer relationships, trademarks, licenses, trade names and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis over five to 20 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually to determine if such assets may be impaired. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value. The remaining weighted-average amortization period for customer based intangibles and other intangibles is 13 and 10 years respectively at May 31, 2010.

### *Long-lived Assets*

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

### *Reclassifications*

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

### *Stock Options*

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

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

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

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

### *Revenue Recognition*

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

### *Shipping and Handling Costs*

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

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. At May 31, 2010 unremitted earnings of the UK subsidiary were \$5,032,000.

### Research and Development Costs

Research and Development costs are expensed as incurred.

### Advertising Costs

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

### Net Income Per Share

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

Year ended May 31 (In thousands, except per share),	2010	2009	2008
Numerator for basic and diluted net income per share			
Net Income	\$ 17,521	\$ 13,874	\$ 12,098
Denominator - Denominator for basic net income per share			
weighted average shares	22,425	22,003	21,711
Effect of dilutive stock options and warrants	666	584	788
Denominator for diluted net income per share	23,091	22,587	22,499
Net income per share:			
Basic	\$ 0.78	\$ 0.63	\$ 0.56
Diluted	\$ 0.76	\$ 0.61	\$ 0.54

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

### New Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standard ("FAS") No. 168 - The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" (codified in ASC 105). This standard establishes the Accounting Standards Codification ("ASC" or Codification") as the source of authoritative accounting principles recognized by FASB for all non-governmental entities in the preparation of financial statements in accordance with GAAP. For SEC registrants, rules and interpretative releases of the SEC under federal securities laws are also considered authoritative sources of GAAP. The FASB will not issue new standards in the form of Statements, FASB Staff Positions ("FSP") or Emerging Issues Task Force ("EITF") Abstracts. Instead, it will issue Accounting Standard Updates ("ASUs"). ASUs will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on changes in the Codification. The provisions of this standard were effective for financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, the Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP for this period ended November 30, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial results or financial position.

On June 1, 2009, the Company adopted ASC 805 Business Combinations (ASC 805). This standard intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. ASC 805 establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial



## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

effects of the business combination. The adoption of the standard had no material impact on the Company's results of operations or financial position at the date of adoption.

ASC 810 Consolidation (ASC 810) requires all entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. Its intention is to eliminate the diversity in practice regarding the accounting for transactions between an entity and noncontrolling interests. The Company was required to adopt the provisions of both ASC 805 and ASC 810 simultaneously on June 1, 2009. The standards were adopted on June 1, 2009, and did not have a material impact on the Company's results of operations or financial position. The presentation and disclosure requirement were applied retrospectively.

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

### 2. GOODWILL AND OTHER INTANGIBLE ASSETS

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

The following table summarizes goodwill by business segment:

(In thousands)	Food Safety	Animal Safety	Total
Balance, June 1, 2008	\$ 12,401	\$ 18,216	\$ 30,617
Goodwill acquired	114	8,986	9,100
Balance, May 31, 2009	12,515	27,202	39,717
Goodwill acquired	4,037	9,145	13,182
<b>Balance, May 31, 2010</b>	<b>\$ 16,552</b>	<b>\$ 36,347</b>	<b>\$ 52,899</b>

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

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

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

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

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. BUSINESS COMBINATIONS

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

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

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

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

On June 30, 2008, Neogen Corporation purchased a disinfectant business from DuPont Animal Health Solutions. The products of this business are used in animal health hygiene applications. Assets acquired include 14 different product formulations, associated registrations, patents, trademarks, and other intangibles (estimated useful lives of 5-15 years). As a part of the acquisition, the Company obtained the right to distribute certain other related DuPont products in North America. DuPont will distribute certain of the newly acquired Neogen products in certain international markets. Consideration for the purchase was \$7,000,000 and \$5,193,000 was allocated to goodwill, \$1,186,000 to customer based intangible and \$621,000 to trademarks and patents. This acquisition has been integrated into the Lexington, Kentucky, operations and is expected to be a strong synergistic fit with Company's Animal Safety segment.

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

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

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

### 4. LONG-TERM DEBT

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

### 5. EQUITY COMPENSATION PLANS

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of the Company under the terms of the Company's stock option plans at an exercise price of not less than the fair market value of the stock on the date of grant. Remaining

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

shares available for grant under stock option plans were 687,000, 1,085,000 and 1,475,000 at May 31, 2010, 2009 and 2008, respectively. Options vest ratably over three and five year periods and the contractual terms are generally five years.

(In thousands, except per share)	Shares	Weighted-Average Exercise Price
Outstanding at June 1, 2007 (1,032 exercisable)	2,271	\$ 7.40
Granted	584	13.69
Exercised	(710)	6.01
Forfeited	(31)	9.35
Outstanding at May 31, 2008 (777 exercisable)	2,114	9.57
Granted	417	18.11
Exercised	(390)	7.23
Forfeited	(27)	5.73
Outstanding at May 31, 2009 (833 exercisable)	2,114	11.67
Granted	426	19.60
Exercised	(480)	8.57
Forfeited	(62)	13.56
Outstanding at May 31, 2010 (728 exercisable)	1,998	\$ 14.14

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

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number (In thousands)	Average Remaining Contractual Life	Weighted-Average Exercise Price	Number (In thousands)	Weighted-Average Exercise Price	
\$ 2.45-4.94	16	1.53	\$ 4.24	16	\$ 4.24	
4.95-9.09	628	2.39	8.52	420	8.38	
9.10-16.72	549	3.35	13.82	215	13.90	
16.73-20.33	805	3.91	18.93	77	18.19	
	1,998	3.26	\$ 14.14	728	\$ 10.96	

The weighted-average exercise price of shares that were exercisable at May 31, 2009 and 2008 was \$8.89 and \$7.57, respectively. The weighted-average grant-date fair value of options granted in 2010, 2009, and 2008 was \$6.35, \$5.44 and \$4.61 respectively. The aggregate intrinsic value of options outstanding and options exercisable was \$23,119,000 and \$10,740,000 respectively, at May 31, 2010, \$7,850,000 and \$4,855,000 respectively, at May 31, 2009 and \$16,879,000, and \$7,762,000 respectively, at May 31, 2008. The aggregate intrinsic value of options exercised during the year was \$6,554,000 in 2010 and \$4,099,000 in 2009 and \$6,783,000 in 2008. Remaining compensation cost to be expensed in future periods for non-vested options was \$2,680,000 at May 31, 2010, with a weighted average expense recognition period of 2.2 years.

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

	Shares (In thousands)	Weighted-Average Exercise Price
Outstanding warrants at June 1, 2007	121	\$ 7.05
Warrants exercised during the year	(40)	5.43
Outstanding warrants at May 31, 2008	81	7.86
Warrants exercised during the year	(24)	7.22
Warrants forfeited during the year	(5)	6.75
Outstanding warrants at May 31, 2009	52	8.40
Warrants exercised during the year	(20)	8.28
Warrants forfeited during the year	(3)	8.55
Outstanding warrants at May 31, 2010	29	\$ 8.48

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 6. INCOME TAXES

The provision for income taxes consisted of the following:

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

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:

Year ended May 31 (In thousands),	2010	2009
Deferred income tax liabilities		
Indefinite and long-lived assets	\$ (7,479)	\$ (4,079)
Prepays	(454)	(229)
Other	(151)	(451)
	(8,084)	(4,759)
Deferred income tax assets		
Inventories and accounts receivable	1,244	844
Acquired net operating loss carryforwards	429	229
Accrued liabilities and other	1,361	1,161
	3,034	2,234
Net deferred income tax liabilities	\$ (5,050)	\$ (2,525)

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

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

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

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

## **NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **7. COMMITMENTS AND CONTINGENCIES**

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

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

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

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

### **8. DEFINED CONTRIBUTION BENEFIT PLAN**

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

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. SEGMENT INFORMATION

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

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:

(In thousands)	Food Safety	Animal Safety	Corporate and Eliminations <sup>(1)</sup>	Total
<b>2010</b>				
Net sales to external customers	\$ 76,454	\$ 64,055	\$ -	\$ 140,509
Operating income (loss)	21,103	7,801	(2,025)	26,879
Depreciation and amortization	2,924	1,511	-	4,435
Interest income	-	-	81	81
Income taxes (benefit)	7,570	2,798	(568)	9,800
Total assets	74,583	87,894	17,756	180,233
Expenditures for long-lived assets	4,364	1,067	-	5,431
<b>2009</b>				
Net sales to external customers	61,025	57,696	-	118,721
Operating income (loss)	14,943	6,786	(1,241)	20,488
Depreciation and amortization	2,717	1,173	-	3,890
Interest income	-	-	248	248
Income taxes (benefit)	5,356	2,432	(38)	7,750
Total assets	61,322	69,559	11,295	142,176
Expenditures for long-lived assets	1,882	954	-	2,836
<b>2008</b>				
Net sales to external customers	57,664	44,754	-	102,418
Operating income (loss)	14,245	4,972	(1,198)	18,019
Depreciation and amortization	2,495	1,021	-	3,516
Interest income	-	-	442	442
Income taxes (benefit)	5,060	1,766	(426)	6,400
Total assets	60,951	52,236	13,170	126,357
Expenditures for long-lived assets	1,850	621	-	2,471

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

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

## NEOGEN CORPORATION AND SUBSIDIARIES: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. STOCK REPURCHASE

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

### 11. SUMMARY OF QUARTERLY DATA (UNAUDITED)

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

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

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

## REPORTS

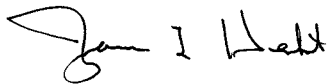
### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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



James L. Herbert  
Chairman and CEO



Richard R. Current  
Vice President and CFO

August 16, 2010

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Neogen Corporation,

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

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

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

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



## REPORTS

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

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

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

*Ernst + Young LLP*

Grand Rapids Michigan • August 16, 2010

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Neogen Corporation,

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

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

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

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

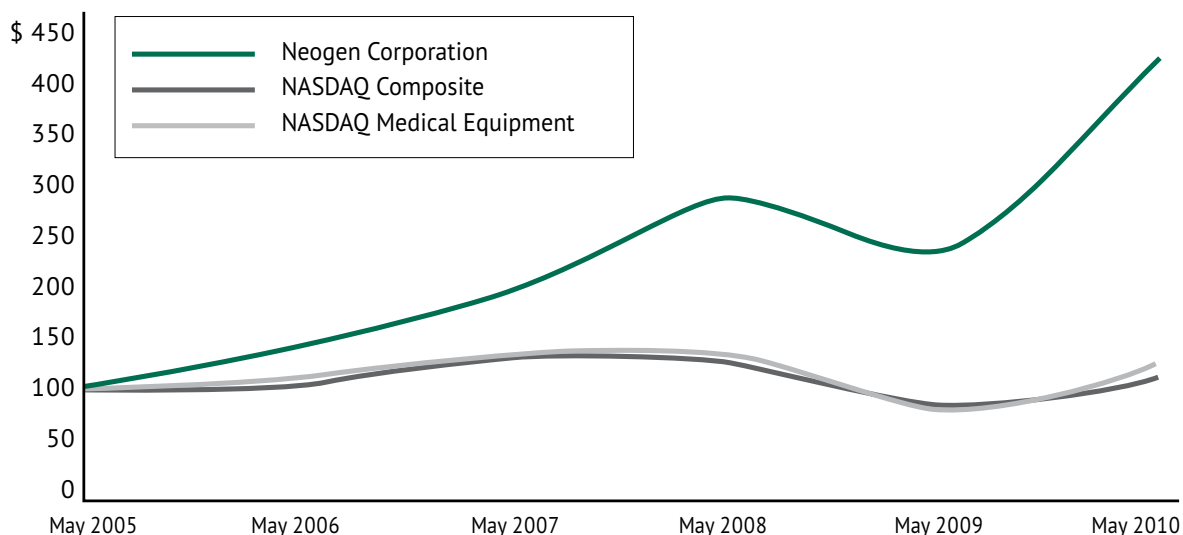
*Ernst + Young LLP*

Grand Rapids Michigan • August 16, 2010

## NEOGEN CORPORATION AND SUBSIDIARIES: COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN AND STOCK PROFILE ACTIVITY

### Comparison of Five Year Cumulative Total Return\*

Among Neogen Corporation, The NASDAQ Composite Index, and The NASDAQ Medical Equipment Index



\*\$100 invested on May 31, 2005 in stock or index, including reinvestment of dividends. Fiscal year ending May 31.

May 31 of:	2005	2006	2007	2008	2009	2010
Neogen Corporation	\$ 100.00	\$ 140.88	\$ 189.09	\$ 272.86	\$ 228.31	<b>\$ 399.50</b>
NASDAQ Composite	100.00	106.43	129.36	124.31	87.50	<b>111.25</b>
NASDAQ Medical Equipment	100.00	112.92	131.13	132.53	84.67	<b>122.23</b>

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, 2010, there were approximately 369 stockholders of record of Common Stock that management believes represents a total of approximately 5,420 beneficial holders.

Year Ended		High	Low
<b>May 31, 2010</b>	Fourth Quarter	<b>\$ 27.39</b>	<b>\$ 23.50</b>
	Third Quarter	24.70	20.51
	Second Quarter	22.79	18.96
	First Quarter	20.23	14.56
<b>May 31, 2009</b>	Fourth Quarter	<b>\$ 15.98</b>	<b>\$ 11.00</b>
	Third Quarter	18.37	13.11
	Second Quarter	21.30	12.73
	First Quarter	19.00	14.80

## NEOGEN CORPORATION OFFICERS AND DIRECTORS

### 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 and 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

### 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

#### Richard Crowder, Ph.D.

Virginia Tech University  
Adjunct Professor of Agricultural  
Economics  
U.S. Department of Agriculture  
Former U.S. Chief Agricultural  
Trade Negotiator

#### A. Charles Fischer

Dow AgroSciences  
Former President and CEO

#### G. Bruce Papesh

Dart, Papesh & Co.  
President

#### Jack C. Parnell

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

#### Thomas H. Reed

JBS Packerland  
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

171 Monroe Avenue NW  
Suite 1000  
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 Leshar Place  
Lansing, MI 48912

### Stock Transfer Agent and Registrar

#### American Stock Transfer and Trust Co.

6201 15th Avenue  
Brooklyn, NY 11219

### Annual Meeting

October 7, 2010  
10:00 a.m.  
University Club  
Michigan State University  
3435 Forest Road  
Lansing, MI 48909



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800/234-5333 • 517/372-9200 • Fax 517/372-0108  
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NASDAQ: NEOG