

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-01-11** | Period of Report: **1995-11-30**  
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FILER

**NEOGEN CORP**

CIK: **711377** | IRS No.: **382367843** | State of Incorporation: **MI** | Fiscal Year End: **0531**  
Type: **10QSB** | Act: **34** | File No.: **000-17988** | Film No.: **96502867**  
SIC: **2835** In vitro & in vivo diagnostic substances

Mailing Address  
620 LESHER PLACE  
LANSING MI 48912

Business Address  
620 LESHER PLACE  
LANSING MI 48912  
5173729200

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended: NOVEMBER 30, 1995

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-17988

NEOGEN CORPORATION

(Exact name of small business issuer as specified in its charter)

MICHIGAN 38-2367843  
(State or other jurisdiction of (IRS employer  
incorporation or organization) Identification No.)

620 LESHER PLACE, LANSING, MICHIGAN 48912  
(Address of principal executive offices)

(517) 372-9200  
(Issuer's telephone number)

NONE

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 after distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date.

4,538,960 WERE OUTSTANDING ON JANUARY 1, 1996

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PART I. FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

NEOGEN CORPORATION AND SUBSIDIARIES

<TABLE>  
<CAPTION>

	November 30 1995	May 31 1995
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 1,505,078	\$ 2,237,979
Net accounts receivable	2,055,332	1,681,200
Inventories	3,974,539	3,806,872
Other current assets	381,530	355,027
	-----	-----
TOTAL CURRENT ASSETS	7,916,479	8,081,078
NET PROPERTY AND EQUIPMENT	1,407,146	1,312,670
INTANGIBLE AND OTHER ASSETS		
Goodwill, net of accumulated amortization	2,084,802	1,513,032
Other assets, net of accumulated amortization	622,443	631,826
	-----	-----
	\$ 12,030,870	\$ 11,538,606
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable and current maturities of long-term notes payable-(Note D)	\$ 1,438,176	\$ 1,146,082
Accounts payable	753,577	742,652
Accrued compensation and benefits	255,177	338,407
Other accrued liabilities	60,354	65,129
	-----	-----
TOTAL CURRENT LIABILITIES	2,507,284	2,292,270
LONG-TERM NOTES PAYABLE-(NOTE D)	314,492	351,233
OTHER LONG-TERM LIABILITIES	58,671	58,671

## STOCKHOLDERS' EQUITY

## Common stock:

Par value \$.16 per share, 10,000,000		
shares authorized, 4,527,960 shares		
issued at November 30, 1995; 4,460,027		
shares issued at May 31, 1995	724,473	713,604
Additional paid in capital	13,637,930	13,592,684
Retained-earnings deficit	(5,211,980)	(5,469,856)
	-----	-----
	9,150,423	8,836,432
	-----	-----
	\$ 12,030,870	\$ 11,538,606
	=====	=====

&lt;/TABLE&gt;

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

## NEOGEN CORPORATION AND SUBSIDIARIES

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Three Months Ended November 30		Six Months Ended November 30	
	1995	1994	1995	1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES				
Sales	\$ 3,198,887	\$ 2,849,242	\$ 6,046,466	\$ 5,418,066
Contract revenues	36,228	73,602	114,293	129,447
	-----	-----	-----	-----
	3,235,115	2,922,844	6,160,759	5,547,513
EXPENSES				
Cost of goods sold	1,374,541	1,285,473	2,556,779	2,341,168
Sales and marketing	920,955	797,322	1,779,509	1,569,494
General and adm.	460,446	404,502	891,743	739,480
Research and develop.	348,207	281,577	669,542	565,411
	-----	-----	-----	-----
	3,104,149	2,768,874	5,897,573	5,215,553
	-----	-----	-----	-----
INCOME FROM OPERATIONS	130,966	153,970	263,186	331,960
OTHER INCOME (EXPENSE)				
Interest income	14,926	21,093	33,317	44,993
Interest expense	(39,364)	(25,823)	(75,740)	(32,100)
Other	26,710	33,627	50,713	33,627
	-----	-----	-----	-----
	2,272	28,897	8,290	46,520
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	133,238	182,867	271,476	378,480
INCOME TAXES	6,400	7,200	13,600	14,400
	-----	-----	-----	-----
NET INCOME	\$ 126,838	\$ 175,667	\$ 257,876	\$ 364,080
	=====	=====	=====	=====
NET INCOME PER SHARE (NOTE B)	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.08
	=====	=====	=====	=====

&lt;/TABLE&gt;

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

## NEOGEN CORPORATION AND SUBSIDIARIES

<TABLE>  
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	Common Stock		Additional Paid-In Capital	Retained- Earnings Deficit
	Number of Shares	Amount		
<S>	<C>	<C>	<C>	<C>
Balance at June 1, 1995	4,460,027	\$ 713,604	\$ 13,592,684	\$ (5,469,856)
Exercise of warrants	39,933	6,389	118,601	
Exercise of options	28,000	4,480	51,635	
Note receivable related to issuance of common stock			(124,990)	
Net income for the six months ended November 30, 1995				257,876
	-----	-----	-----	-----
Balance at November 30, 1995	4,527,960	\$ 724,473	\$ 13,637,930	\$ (5,211,980)
	=====	=====	=====	=====
Balance at June 1, 1994	4,329,729	\$ 692,757	\$ 13,108,815	\$ (6,148,563)
Common shares issued in connection with acquisitions	55,753	8,920	316,080	
Exercise of warrants	40,020	6,403	121,446	
Exercise of options	29,325	4,692	37,101	
Net income for the six months ended November 30, 1994				364,080
	-----	-----	-----	-----
Balance at November 30, 1994	4,454,827	\$ 712,772	\$ 13,583,442	\$ (5,784,483)
	=====	=====	=====	=====

&lt;/TABLE&gt;

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

## NEOGEN CORPORATION AND SUBSIDIARIES

<TABLE>  
<CAPTION>

	Six Months Ended November 30	
	1995	1994
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net income	\$ 257,876	\$ 364,080
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	264,353	221,035
Gain on sale of fixed assets		(13,688)
Changes in operating assets and liabilities:		
Accounts receivable	(374,132)	(384,795)
Inventories	(135,131)	(756,378)
Other current assets	(26,503)	(117,813)
Accounts payable	10,925	82,672
Other accrued expenses	(88,005)	(268,705)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(90,617)	(873,592)

INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(273,696)	(111,559)
Proceeds from sale of fixed assets		155,163
Acquisition of business (Note C)	(680,056)	(817,957)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(953,752)	(774,353)
FINANCING ACTIVITIES:		
Proceeds on short-term borrowings	300,000	621,945
Proceeds on long-term borrowings		400,000
Payments on long-term borrowings	(44,647)	(561,413)
Proceeds from issuance of common stock	56,115	169,642
	-----	-----
NET CASH PROVIDED FROM FINANCING ACTIVITIES	311,468	630,174
	-----	-----
DECREASE IN CASH	(732,901)	(1,017,771)
Cash at beginning of period	2,237,979	3,006,941
	-----	-----
CASH AT END OF PERIOD	\$ 1,505,078	\$1,989,170
	=====	=====

</TABLE>

See notes to consolidated financial statements

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

##### NEOGEN CORPORATION AND SUBSIDIARIES

##### NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in the 1994 Unaudited Consolidated Financial Statements have been reclassified to conform to the 1995 presentation. The results of operations for the six months ended November 30, 1995 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 1996. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 1995 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-KSB for the year ended May 31, 1995.

##### NOTE B - NET INCOME PER SHARE

The net income per share amounts for 1995 and 1994 are based on the weighted average number of common shares outstanding adjusted to reflect the assumed exercise of outstanding stock options and warrants, to the extent these items had a dilutive effect on the computations.

##### NOTE C - ACQUISITIONS

Effective June 15, 1995, Neogen acquired certain assets of International Diagnostic Systems Corp. (IDS) of St. Joseph, Michigan. The acquisition was accounted for by the purchase method and all acquired assets, consisting of inventory and related research and technology for 35 different diagnostic tests used to detect drugs of abuse in animals, were moved to the Company's ELISA Technologies division in Lexington, Kentucky.

The purchase price consisted of initial consideration of approximately \$680,000 paid in cash at closing. Additional consideration may be paid, contingent upon sales performance for the twelve month period ending June 14, 1996.

##### NOTE D - NOTES PAYABLE

On August 29, 1995, Neogen and its wholly-owned subsidiary, AMPCOR Diagnostics, Inc. (AMPCOR), signed a new master revolving note payable to Comerica Bank which increased AMPCOR's line of credit facility to \$1,000,000 from \$600,000. The note bears interest at .75% over the prime rate (9.50% at November 30, 1995) and is collateralized by substantially all assets of Neogen and AMPCOR. Borrowings against AMPCOR's line of credit were \$608,946 at November 30, 1995 and \$508,946 at May 31, 1995.

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ITEM 2.

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

THREE MONTHS ENDED NOVEMBER 30, 1995 COMPARED TO THREE MONTHS ENDED NOVEMBER 30, 1994.

Total revenues for the quarter ended November 30, 1995 were \$312,000 or 11% higher than the same quarter in 1994. A 30% increase in sales of predictive and diagnostic products was partially offset by a 15% decline in veterinary instrument sales and lower research revenues in the second quarter.

Of the \$517,000 increase in sales of predictive and diagnostic products, \$306,000 was the result of a 29% increase in sales of diagnostic test kits to detect harmful mycotoxin residues in the feed, grain, and nut markets. The remaining increase of \$211,000 is principally due to a 43% increase in sales of diagnostic kits for the horse racing and pharmacologic markets.

Veterinary instrument sales were down \$167,000 in the second quarter, primarily due to depressed cattle prices which have resulted in lower demand for durable veterinary instruments.

Contract revenues decreased \$38,000 compared to last year due to the scheduled completion of two research contracts at the beginning of the second quarter. It is common for contract revenues to fluctuate from quarter to quarter and year to year depending on the timing and terms of the contracts.

The increase in cost of goods sold for the second quarter is a direct result of the overall increase in product sales. Expressed as a percentage of revenues, cost of goods sold improved to 42% compared to 44% in the prior year due primarily to a higher mix of predictive and diagnostic products.

Sales and marketing expenses increased \$124,000 or 16% in the three months ended November 30, 1995 compared to the same period in 1994. Approximately \$67,000 of this increase is related to salary, fringe, travel, printing, advertising, and promotion expenses principally associated with the Company's introduction of new diagnostic kits for the meat and poultry market. Another \$42,000 of the increase pertains to similar categories of expense related to introduction of new products to the seafood and equine markets. The remaining increase is primarily due to higher commissions and royalties (\$29,000) and promotional programs (\$23,000) for sales of mycotoxin diagnostic test kits, offset to a large degree by lower commissions paid on veterinary instrument sales.

General and administrative expenses were \$55,000 or 14% higher in the second quarter of 1995 than last year. The primary increases in expense were \$35,000 for salaries and fringe costs partially due to new secretarial and accounting personnel as a result of increased business volume; \$10,000 for higher costs associated with investor relations, and \$10,000 of increased amortization expense as a result of the acquisition of certain assets of International Diagnostic

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Systems Corp. (See Note C to Unaudited Consolidated Financial Statements.)

The \$67,000 increase in research expense for the second quarter is mostly due to ongoing research programs in two separate areas. The Company incurred \$33,000 in higher expense for salaries, fringe, and supplies related to the development of new diagnostic kits and reagents to be sold to the pharmacologic and equine markets. Another \$30,000 of the increase was for higher salaries, fringe, and supplies incurred as part of research efforts to develop new diagnostic test kits for the detection of harmful bacteria. Management believes research and development is critical to the Company's future and expects to continue the investment in research during the remaining two quarters of the current fiscal year.

Interest income declined in the second quarter due to lower cash balances available for investment. Interest expense increased as a result of higher

rates and increased borrowings compared to the second quarter in 1994.

SIX MONTHS ENDED NOVEMBER 30, 1995 COMPARED TO SIX MONTHS ENDED NOVEMBER 30, 1994.

Total revenues for the six months ended November 30, 1995 were 11% higher than for the same period in 1994. Sales of predictive and diagnostic products for this period were \$874,000 or 24% higher than the prior year. Veterinary instrument sales for the first six months declined \$246,000 or 13%.

Of the \$874,000 increase in predictive and diagnostic product sales, approximately \$185,000 was the result of including a full six months of sales for AMPCOR Diagnostics, Inc. (ADI) in 1995 whereas the first six months in 1994 included only four months of sales for ADI. Sales of diagnostic tests to detect mycotoxins increased \$386,000 and the remaining increase for this segment was due to increased sales of diagnostic test kits for the equine and pharmacologic markets.

Cattle prices have declined significantly over the last six months resulting in a lower demand for veterinary instruments including durable syringes, obstetrical products, and balling guns. Management believes targeted promotions for specific instruments, along with the planned introduction of new products, will help increase sales in this segment for the second half of this fiscal year. The decline in sales of veterinary instruments has had very little impact on profitability through the first six months due to cost conservation measures implemented by the Company.

As a percent of revenues, cost of goods sold was 42% for both 1995 and 1994. The overall \$216,000 or 1% increase in cost of goods sold is the direct result of increased sales volume for the six months ended November 30, 1995 compared to the same period in 1994.

Sales and marketing expenses increased \$210,000 or 13% in the first six months compared to last year. Of this amount, \$30,000 was due to six months of operations for ADI this year compared to four months

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last year. Entry into the meat and poultry market resulted in approximately \$115,000 of increased expense spread across a number of categories including salaries, fringe, travel, printing, advertising, and trade shows. Increases in cost for the same expense categories totaled \$70,000 related to the introduction of new products for the seafood and equine markets. Neogen intends to expand its sales and marketing activities for predictive and diagnostic products, particularly in the meat and poultry and seafood markets.

Sales and marketing expenses for the feed, grain, and nut markets were up approximately \$90,000 during the first six months with most of the increase in the areas of travel (\$8,000), advertising and special promotions (\$40,000), freight costs (\$20,000) and telephone expense (\$10,000). Selling expense for veterinary instruments declined \$100,000 in the first six months primarily due to lower commission expense.

General and administrative expense for the first six months was \$152,000 higher than for the same period last year. A total of \$60,000 of the increase was the result of higher costs at ADI due to two extra months of operations in the current year compared to last year. Salaries and fringe expense was approximately \$50,000 more than last year with \$35,000 of this amount due to new secretarial and accounting personnel as a result of increased business volume. Increases in other expense categories for the first six months included \$10,000 for supplies related to increases in overall employment levels and \$20,000 of increased amortization expense due to the acquisition of certain assets of International Diagnostic Systems, Corp. (See Note C to Unaudited Consolidated Financial Statements.)

The \$104,000 increase in research and development cost is partially due to \$44,000 of added expense this year because of an extra two months of operations at ADI compared to last year. The remainder of the increase is the result of higher salaries, fringe, and supplies for research programs to develop new diagnostic test kits for the equine and pharmacologic markets and for the detection of harmful bacteria. Neogen considers investment in research activities critical to the long-term future of the business.

Other income in the first six months declined \$38,000 principally due to higher interest expense as a result of higher rates and increased borrowings.

Net income for the first six months declined to \$.06 per share compared to \$.08 per share last year. Net income for this year has been impacted by the company's ongoing investment in research programs for several new diagnostic tests as well as scale-up in sales and marketing activities for entry into the seafood and meat and poultry markets. The effect of these programs are most evident at Neogen's AMPCOR Diagnostics subsidiary where losses for the second quarter and year-to-date are \$.03 per share and \$.06 per share, respectively,



worse than last year. Management believes this investment is both necessary and worthwhile due to the significant future sales potential that exists in these markets.

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#### FINANCIAL CONDITION AND LIQUIDITY

At November 30, 1995, the Company had \$1,505,000 in cash and equivalents, working capital of \$5,409,000, and stockholders' equity of \$9,150,000. In addition, the Company has bank lines of credit totaling \$2,500,000 with \$1,359,000 borrowed against these lines as of November 30, 1995. Cash and equivalents declined \$734,000 during the first six months primarily as a result of the acquisition of assets of International Diagnostic Systems Corp. (See Note C to Unaudited Consolidated Financial Statements.)

Effective June 15, 1995, Neogen acquired certain assets of International Diagnostic Systems Corp. of St. Joseph, Michigan. The purchase price paid was approximately \$680,000 in cash.

During the first six months ended November 30, 1995, accounts receivable increased \$374,000 with higher balances at all of the Company's operations. All of the increase occurred in the month of November when Neogen experienced its highest sales month of the year and had fewer working days for collections. Inventories at November 30, 1995 were \$168,000 or 4% higher than May 31, 1995 partially due to increased sales volume and partially due to inventory levels for new products introduced during the first six months of the current fiscal year.

The increase in goodwill at November 30 compared to May 31 is the direct result of the acquisition of certain assets of International Diagnostic Systems, Corp.

The decrease in accrued compensation and benefits at November 30 compared to May 31 is due to payment in the first quarter of bonuses and commissions earned and accrued prior to May 31, 1995.

The Company borrowed \$300,000 on its bank lines of credit during the first six months primarily to fund working capital needs at ADI and for veterinary instruments. The Company also made scheduled payments on long-term debt totaling \$45,000. Neogen expended approximately \$274,000 in the first six months for additions to property, equipment, and other assets. At November 30, the Company has no material commitments for capital expenditures. Inflation and changing prices are not expected to have a material effect on the Company's operations.

During the second quarter, the company received a \$125,000 demand note, bearing interest at the rate of 10% per annum, executed in connection with the exercise of warrants to purchase 39,933 shares of the Company's common stock. Neogen expects to collect the note, including interest, during its third fiscal quarter.

Neogen has been profitable for eleven consecutive quarters and has generated positive cash flows from operations during this period. Management believes that the Company's existing cash and equivalents at November 30, 1995, along with its available bank lines of credit and expected future increases in product sales, will be sufficient to fund activities for 1996 and 1997. However, cash and equivalents have

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declined in the last two years as a result of acquisitions made by the Company. In addition, existing cash and equivalents may not be sufficient to meet the Company's longer term 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 issue equity securities or enter into other financing arrangements for a portion of the Company's future capital needs.

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#### PART II - OTHER INFORMATION

##### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

###### (a) Exhibit Index

Exhibit 4 - Instruments defining the rights of security holders - incorporated by reference from Exhibit 3(a) (2) of

the Second Amendment to the Form S-18 Registration Statement filed on August 22, 1989.

Exhibit 11 - Statement regarding computation of earnings per share.

Exhibit 27 - Financial Data Schedule

(b) Reports On Form 8-K Filed In Quarterly Period Ended November 30, 1995.

The Company did not file any reports on Form 8-K in the quarterly period ended November 30, 1995.

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SIGNATURES

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

NEOGEN CORPORATION

January 11, 1996 /s/ James L. Herbert  
-----  
Date James L. Herbert  
President

January 11, 1996 /s/ Lon M. Bohannon  
-----  
Date Lon M. Bohannon  
Vice President-Chief Financial Officer

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EXHIBIT INDEX

Exhibits Filed Herewith

<TABLE>  
<CAPTION>

Exhibit No. -----	Description -----
<S>	<C>
11	Statement Regarding Computation Of Earnings Per Share
27	Financial Data Schedule

</TABLE>

## (11)--STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

## NEOGEN CORPORATION AND SUBSIDIARIES

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Three Months Ended November 30		Six Months Ended November 30	
	1995	1994	1995	1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Weighted average common and common equivalent shares outstanding:				
Average shares outstanding	4,490,951	4,449,602	4,475,592	4,407,441
Net effect of dilutive stock warrants--based on the treasury stock method using average market price which is greater than quarter-end market price	33,487	67,975	33,274	63,989
Net effect of dilutive stock options--based on the treasury stock method using average market price which is greater than quarter-end market price	152,422	210,067	157,911	201,688
	-----	-----	-----	-----
TOTALS	4,676,860	4,727,644	4,666,777	4,673,118
	=====	=====	=====	=====
Net income	\$ 126,838	\$ 175,667	\$ 257,876	\$ 364,080
	=====	=====	=====	=====
Net income per share	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.08
	=====	=====	=====	=====

&lt;/TABLE&gt;

<TABLE> <S> <C>

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This schedule contains summary financial information extracted from the Neogen Corporation Form 10-QSB for the quarter ended November 30, 1995 and is qualified in its entirety by reference to such Form 10-QSB.

</LEGEND>

<CIK> 0000711377

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