IMMUCELL CORP /DE/
Form 10-K
March 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

001-12934

(Commission file number)

ImmuCell Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**01-0382980**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
56 Evergreen Drive, Portland, Maine	**04103**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number: (207) 878-2770

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.10 per share

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates at June 29, 2012 was approximately $12,926,000 based on the closing sales price on June 29, 2012 of $5.85 per share.

The number of shares of the Registrant's common stock outstanding at March 20, 2013 was 3,019,034.

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement to be filed in connection with the 2013 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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December 31, 2012

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PART I

ITEM 1 – DESCRIPTION OF BUSINESS

Summary

ImmuCell Corporation was founded in 1982 and completed an initial public offering of common stock in 1987. After achieving approval from the U.S. Department of Agriculture (USDA) to sell **First Defense®** in 1991, we focused most of our efforts during the 1990's developing human product applications of the underlying milk protein purification technology. Beginning in 1999, we re-focused on **First Defense®** and other products for the dairy industry. Our purpose is to create scientifically-proven and practical products that result in a measurable economic impact on animal health and productivity in the dairy and beef industries.

During 2000, we began the development of **Mast Out™**, our Nisin-based treatment for subclinical mastitis in lactating dairy cows. Nisin is an antibacterial peptide that has been demonstrated in clinical studies to be an effective aid in the reduction of mastitis-causing organisms in dairy cows. Mastitis is a very common infection in dairy cows that results in inflammation of the mammary gland. Because dairy producers are required to discard milk for a period during and after treatment with all currently marketed mastitis treatment products due to concerns about antibiotic residue in milk, it is generally current practice to only treat mastitis when the disease has progressed to the clinical stage where the milk from an infected cow cannot be sold. By avoiding the milk discard penalty and making earlier treatment of subclinically infected cows economically feasible, we believe that **Mast Out™** could revolutionize the way that mastitis is treated. No other FDA-approved mastitis treatment product on the market can offer this value proposition. **Mast Out™** could also be used as a tool to improve milk quality, allowing producers to increase milk revenue by earning higher milk quality premiums. No sales of this product can be made without prior approval from the Center for Veterinary Medicine, U.S. Food and Drug Administration (FDA). Regulatory achievements to-date have significantly reduced the product development risks for **Mast Out™** in the areas of safety and effectiveness. Our primary focus has now turned to the commercial-scale manufacturing objectives required for FDA approval. We are actively engaged in pursuing the necessary financial support and resources to complete the **Mast Out™** product development initiative through any combination of available cash, debt, equity and/or investment from a partner.

During the thirteen-year period that began on January 1, 2000 and ended on December 31, 2012, we invested the aggregate of $16,603,000 in total product development expenses, while working on **Mast Out™** and other projects. Approximately 53% of this amount pertained directly to the development of **Mast Out™**. This estimated allocation to **Mast Out™** reflects only direct expenditures and includes no allocation of product development or administrative overhead expenses. Approximately $2,641,000 (which was all earned prior to 2008) of this investment was offset by product licensing revenues and grant income related to **Mast Out™** . We are engaged in negotiations with potential

partners that may fund the remaining investment, principally related to the manufacture of pharmaceutical-grade Nisin, that is required to bring **Mast Out**Ò to market. This strategic decision not to self-fund these large, late-stage development expenses, together with increased sales of **First Defense®**, allowed us to return to profitability during 2012.

Maintaining our compliance with current Good Manufacturing Practice (cGMP) regulations requires a sustained investment that we believe further increases our products' quality and may open access to international markets where such standards are imposed. At the same time, we are investigating ways to develop new products utilizing the technology underlying **First Defense®** (milk antibodies) and **Mast Out**Ò (Nisin).

With our 1999 shift to re-focus on animal health products, we were able to record net income for each year during the nine-year period that began on January 1, 1999 and ended on December 31, 2007. We believe that this conservative approach to financial management put us in a position to weather a general economic downturn like the one we have been experiencing, while funding a large amount of **Mast Out®** product development expenses. A significant and controlled investment in the development of **Mast Out®** resulted in net losses for each year during the four-year period that began on January 1, 2008 and ended on December 31, 2011. We had enough cash and short-term investments to fund these losses. We returned to profitability during 2012 based principally on a reduction in product development expenses and an increase in sales of **First Defense®**. During the fourteen-year period that began January 1, 1999 and ended on December 31, 2012, we invested an aggregate of $17,416,000 in product development expenses. During these fourteen years, this financial strategy (which resulted in nine years of profits followed by four years of losses before returning to profitability in 2012) has allowed us to fund our operations and improve our net financial position, as demonstrated in the following table (in thousands, except for percentages):

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	As of December 31, 1998		Net $ increase over fourteen-year period		As of December 31, 2012	Net % increase over fourteen-year period	
Cash, cash equivalents and short-term investments	$ 1,539	+	$ 3,375	=	$ 4,914	219	%
Net working capital	$ 1,866	+	$ 4,831	=	$ 6,697	259	%
Total assets	$ 3,145	+	$ 7,885	=	$ 11,030	251	%
Stockholders' equity	$ 2,248	+	$ 6,947	=	$ 9,195	309	%

We had approximately 2,429,000 shares of common stock outstanding as of December 31, 1998 in comparison to 3,019,000 shares as of December 31, 2012. There were approximately 480,000 and 213,000 shares of common stock reserved for issuance under stock options that were outstanding as of December 31, 1998 and 2012, respectively.

Animal Health Products

Our lead product, **First Defense**Ò, is manufactured from cows' colostrum using our proprietary vaccine and milk protein purification technologies. The target disease, bovine enteritis (calf scours), causes diarrhea and dehydration in newborn calves and often leads to serious sickness and even death. **First Defense**Ò is the only USDA-licensed, orally delivered scours preventive product on the market for calves with claims against *E. coli* K99 and coronavirus (two leading causes of scours). We are a leader in the scours prevention market with this product. During the third quarter of 2012, we sold the 12,000,000th dose of **First Defense**Ò. The third quarter of 2012 marked the 21st anniversary of the original USDA approval of this product in 1991. We believe that these milestones demonstrate the value of our technology and the long-term market acceptance of our product.

Due to natural variability in colostrum, newborn calves do not always get the antibodies they need from maternal colostrum. **First Defense**® provides bovine antibodies that newborn calves need but are unable to produce on their own immediately after birth. **First Defense**® competes with scours vaccines that are given to the mother cow and to the calf. Despite the best-managed dam (mother cow) vaccine program, colostrum quality is variable. Further, we know that newborn calves respond poorly, if at all, to vaccines, and the immune system must be given time to develop a response to vaccines. Colostrum feeding must be delayed when a calf vaccine is used, and it is not a good calf health practice to delay the feeding of colostrum while waiting for a vaccine response to be mounted. **First Defense**® provides immediate and preformed immunity (**Immediate Immunity**)™ when calves need it most - during the first few critical days of life. The direct, two-part mode-of-action of **First Defense**® delivers specific immunoglobulins at the gut level to immediately protect against disease, while also providing additional antibodies that are absorbed into the bloodstream. These circulating antibodies function like a natural timed-release mechanism, as they are re-secreted into the gut later to provide extended protection. A single dose of **First Defense**® provides a guaranteed level of protection proven to reduce mortality and morbidity from two major causes of calf scours. Studies have shown that calves that

scour are more susceptible to other diseases and under-perform calves that do not contract scours. **First Defense®** is convenient to use. A calf needs to receive only one bolus of **First Defense®** within the first twelve hours after birth. The product is stored at room temperature and no mixing is required before it is given to the calf. There is no required slaughter withdrawal period for calves that are given **First Defense®**.

During 1999, we acquired **Wipe OutÒ Dairy Wipes**, which is our second leading source of product sales revenue. That transaction included the purchase of certain equipment, trademarks and a license of intellectual property, including several issued patents, covering the product and rights to develop skin and environmental sanitizing applications of the Nisin technology. **Wipe OutÒ Dairy Wipes** consist of biodegradable towelettes that are pre-moistened with a Nisin-based formulation to prepare the teat area of a cow in advance of milking. Milking regulations require that the teat area of cows be cleaned, sanitized and dried for each milking. Producers use a variety of methods including dips and paper or cloth towels. Our wipes are made from a non-woven fabric that is strong enough to allow for a vigorous cleaning but still biodegradable for disposal. The wiping process can also help promote milk letdown. **Wipe OutÒ Dairy Wipes** are manufactured in compliance with cGMP regulations, as required by federal law.

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As a product line extension, we have been developing a pet application of our Nisin and **Wipe Out® Dairy Wipes** technologies, since many skin infections in pets are caused by Nisin-susceptible bacteria. During 2006, we completed a collaborative study of Nisin susceptibility in methicillin-resistant canine staphylococcal isolates with investigators at the University of Pennsylvania School of Veterinary Medicine. One hundred isolates of methicillin-resistant canine *Staphylococcus aureus* (MRSA), *intermedius* and *schleiferi* were tested and found to be highly susceptible to Nisin's antibacterial activity. During 2008, we completed a clinical feasibility study in collaboration with the University of Tennessee to evaluate the effectiveness of Nisin impregnated wipes used to treat skin infections in dogs. During the first quarter of 2013, we made our first significant sale of Nisin-based wipes for pets in a 120-count canister to Bayer Animal Health of St. Joseph, Missouri.

During 2001, we began to offer our own, internally developed **California Mastitis Test (CMT)**. **CMT** can be used for bulk tank as well as individual cow sample monitoring and can be used to determine which quarter of the udder is mastitic. This test can be performed at cow-side for early detection of mastitis. **CMT** products are also made by other manufacturers and are readily available to the dairy producer. The wholesale price of our product is generally lower than the competitive products that were present in the market when we initiated commercial sales.

Sales and Markets

Our sales and marketing team currently consists of one director and two regional managers. Our office manager and facility manager support our sales efforts by performing the order entry, inside sales and shipping duties. Effective for 2011 and 2012, we entered into a sales and marketing collaboration with Agri Laboratories Ltd. of St. Joseph, Missouri, (AgriLabs©), under which the AgriLabs sales and marketing teams worked with us to expand market demand for **First Defense©**. This agreement was not extended beyond December 31, 2012. The manner in which we sell and distribute our products depends, in large measure, upon the nature of the particular product, its intended users and the country in which it is sold. The distribution channel selected is intended to address the particular characteristics of the marketplace for a given product. **First Defense©** is sold primarily through major veterinarian distributors. Sales are normally seasonal, with higher sales expected during the first quarter. Harsh winter weather and severe temperature fluctuations cause stress to calves, and calves under stress are more susceptible to scours. Sales of this product into the beef industry are highly seasonal because most beef calves are born between January and April each year and our product is designed to be administered to calves immediately after birth. We sell **Wipe Out© Dairy Wipes**, and **CMT** to distributors, bovine veterinarians and directly to producers. Sales and marketing expenses amounted to 18%, 17% and 15% of product sales in the years ended December 31, 2012, 2011 and 2010, respectively. Our budget guideline for 2013 is to invest up to 20% of product sales in sales and marketing expenses.

First Defense© is generally sold through large, financially strong distributors, which we believe has resulted in minimal bad debt with respect to this product. We provide for a 50% account credit for domestic distributors on

expired **First Defense**Ò product, which has a two-year shelf life, resulting in an immaterial amount of returns. Promotional merchandise is given to certain customers at times because we believe it enhances brand recognition. Additionally, advertising, training meetings, incentive programs, direct mail initiatives and face-to-face solution selling are tactics we use to create brand loyalty.

International product sales represented approximately 20%, 19% and 18% of our total product sales for the years ended December 31, 2012, 2011 and 2010, respectively. The majority of these international sales were to Canada. We currently price our products in U.S. dollars. An increase in the value of the dollar in any country in which we sell products may have the effect of increasing the local price of such products, thereby leading to a potential reduction in demand. Conversely, to the extent that the value of the dollar declines with respect to any other currency, our competitive position may be enhanced. Generally, our international sales are generated through relationships with in-country distributors that have knowledge of the local regulatory and marketing requirements.

We continue our efforts to grow sales of **First Defense**Ò in North America, where there are approximately 9,000,000 dairy cows in the United States and 1,000,000 dairy cows in Canada. We believe that even greater market opportunities exist in other international territories. There are estimated to be approximately 23,000,000 dairy cows in the European Union, another 8,000,000 in Russia, another 7,000,000 in Australia and New Zealand and another 800,000 in Japan. These figures do not consider potential sales in the beef markets. Industry practices, economic conditions and cause of disease may differ in these foreign markets from what we experience in the United States. We introduced **First Defense**Ò into South Korea in 2005 and its equivalent into Japan in 2007 through collaborations with in-country distributors.

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Estimated to cost the U.S. dairy industry approximately $2 billion per year, mastitis (inflammation of the mammary gland) is the most costly and common disease affecting the dairy industry. The disease diminishes the saleable quantity and overall value of milk, in addition to causing other herd health and productivity losses. These losses include the cost of treatment products, reduced milk production, discarded milk and increased cull cows. We estimate that the U.S. market for antibiotics used to treat clinical mastitis (those cases where cows are producing abnormal milk that cannot be sold) in lactating cows is approximately $40,000,000 per year and that similar market opportunities also exist outside of the United States and for the treatment of dry (non-lactating) cows. Some observers believe the market could be larger.

While the benefit of treating clinical mastitis is widely known, subclinical mastitis (those cases where cows have infected udders, but still produce saleable milk) is associated with its own significant economic losses and is recognized as a significant contributor to clinical mastitis cases. There is a growing awareness of the cascade of adverse events and conditions associated with subclinical mastitis, including reduced or foregone milk quality premiums, lower milk production, shorter shelf life for fluid milk, lower yields and less flavor for cheese, higher rates of clinical mastitis, lower conception rates, increased abortions and increased cull rates. It is difficult to evaluate the potential size of the as-yet undeveloped subclinical mastitis treatment market. Some industry experts have estimated that subclinical mastitis costs the U.S. dairy industry approximately $1 billion per year. Current intervention strategies for subclinical disease are considered inadequate and generally not cost-effective. Due to milk discard requirements, most dairy producers simply do not treat subclinically infected cows or they cull the affected animals from the herd. Common milk discard periods cover the duration of treatment and extend from 36 to 96 hours after last treatment, depending on the antibiotic. On average, a cow produces approximately 80 pounds of milk per day. While milk prices vary significantly, at an average value of $15 per 100 pounds, a cow produces approximately $12 worth of milk per day. Milk discard costs, ranging from approximately $40 to $100 per treated animal, are a significant barrier to the routine treatment of subclinical mastitis. We believe **Mast Out**Ò could expand the subclinical mastitis treatment market niche largely because it would not be subject to this milk discard requirement. The ability to treat such cases without a milk discard could revolutionize the way mastitis is managed in a herd. **Mast Out**Ò could be uniquely positioned in the market as both a treatment for subclinical mastitis and as a tool to prevent some cases of clinical mastitis.

Mast OutÒ likely will be priced at a premium to the traditional antibiotic products currently on the market, which are all sold subject to a milk discard requirement. However, we believe that the product's value proposition demonstrates a return on investment to the producer that will justify this premium, even in this economically challenging dairy economy.

The FDA is expected to grant a period of five years of market exclusivity for **Mast Out**Ò (meaning the FDA would not grant approval to a second and similar NADA for a period of five years after the first NADA approval is granted) under Section 512(c)(2)F of the Federal Food, Drug, and Cosmetic Act. Regulations in the European Union will likely require that **Mast Out**Ò be sold subject to a milk discard requirement in that territory, although the duration of the

milk discard requirement may be shorter than the discard requirement applicable to competitive products on the market.

Many fear that the possible overuse of antibiotics in livestock may undermine the effectiveness of drugs to combat human illnesses and may be a contributing factor to the rising problem of bacterial drug resistance. The FDA is committed to addressing this public health concern. Citing concerns about untreatable, life-threatening infections in humans, new FDA and European regulations are aimed at restricting the use of cephalosporins in food animals and at improving milk quality. New USDA regulations have been implemented to reduce the allowable level of somatic cell counts in milk to 400,000 (previously 750,000) at the farm level in order to qualify for an EU export certification. In late 2011, The Dutch Veterinary Society proposed strict guidelines for veterinary use of antibiotics in the EU. Additionally, regulators have recently increased their monitoring of antibiotic residues in milk and meat. This current environment could be favorable to the introduction of a new product such as **Mast Out**Ò as an alternative to traditional antibiotics. We continue to believe that this product opportunity justifies ongoing product development efforts.

Product Development

Our lead product development initiative is **Mast Out®**, a Nisin-based intramammary treatment of subclinical mastitis in lactating dairy cows. As anticipated, we reduced product development expenses during 2012 primarily because we spent less money on the development of **Mast Out**Ò with the significant clinical studies now largely complete. Product development expenses decreased by approximately 47%, or $802,000, to $918,000 during the year ended December 31, 2012 in comparison to $1,720,000 during the same period in 2011.

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During 2000, we acquired an exclusive license from Nutrition 21, Inc. (formerly Applied Microbiology Inc. or AMBI) to develop and market Nisin-based products for animal health applications, which allowed us to initiate the development of **Mast Out**Ò. In 2004, we paid Nutrition 21 approximately $965,000 to buy out this royalty and milestone-based license to Nisin, thereby acquiring control of the animal health applications of Nisin. Nisin, the same active ingredient contained in **Wipe Out**Ò **Dairy Wipes**, is an antibacterial peptide. Nisin is known to have activity against most gram positive and some gram negative bacteria. Nisin is a well characterized substance, having been used in food preservation applications for over 50 years. Food-grade Nisin, however, cannot be used in pharmaceutical applications because of its low purity. Our Nisin technology includes methods to achieve pharmaceutical-grade purity. In the pivotal effectiveness study, statistically significant **Mast Out**Ò cure rates were associated with a statistically significant reduction in milk somatic cell count (SCC), which is an important measure of milk quality.

In 2004, we entered into a product development and marketing agreement with Zoetis Inc. (formerly Pfizer Animal Health, a division of Pfizer, Inc.) covering **Mast Out**Ò. Under that agreement (as amended and supplemented and later terminated), we received $2,375,000 in payments. Zoetis elected to terminate the agreement in 2007. Soon thereafter, Zoetis returned to us all rights, data, information, files, regulatory filings, materials and stocks of Nisin and Nisin producing cultures relating to the development of **Mast Out**Ò. We believe that the decision of Zoetis to terminate the agreement was not based on any unanticipated efficacy or regulatory issues. Rather, we believe the decision was primarily market driven, largely relating to their fear that the use of **Mast Out**Ò might cause a potential problem, where the milk from treated cows could interfere with the manufacture of certain cultured dairy products.

Due to the zero milk discard feature, there is a risk that Nisin from milk of cows treated with **Mast Out**Ò could interfere with the manufacture of certain (but not all) commercial cultured dairy products, such as some kinds of cheese and yogurt, if a process tank contains milk from a high enough percentage of treated cows. We have conducted a formal risk assessment to quantify the impact that milk from treated cows may have on cultured dairy products. This study concluded that the dilution of milk from treated cows through commingling with milk from untreated cows during normal milk hauling and storage practices reduces the risk of interference with commercial dairy cultures to a negligible level when **Mast Out**Ò is used in accordance with the product label. Milk from treated cows that is sold exclusively for fluid milk products presents no such risk.

Commercial introduction of **Mast Out**Ò in the United States is subject to approval of our New Animal Drug Application (NADA) by the Center for Veterinary Medicine, U.S. Food and Drug Administration (FDA), which approval cannot be assured. Foreign regulatory approvals would be required for sales in key markets outside of the United States and would involve some similar and some different requirements. In 2007, we began the production of pivotal batches of drug product to fulfill the regulatory requirements of effectiveness, stability, target animal safety and human food safety. The NADA is comprised of five principal Technical Sections subject to the FDA’s phased review of a NADA. By statute, each Technical Section submission is generally subject to a six-month review cycle by the FDA. The current status of our work on these Technical Sections is as follows:

1) Environmental Impact: During the third quarter of 2008, we received the Environmental Impact Technical Section Complete Letter from the FDA.

2) Target Animal Safety: During the second quarter of 2012, we received the Target Animal Safety Technical Section Complete Letter from the FDA.

3) Effectiveness: During the third quarter of 2012, we received the Effectiveness Technical Section Complete Letter from the FDA.

4) Human Food Safety (HFS): The HFS Technical Section submission was made during the fourth quarter of 2010. This Technical Section determines if a milk discard period or meat withhold period will be required. This Technical Section includes several subsections such as: a) toxicology, b) total metabolism, c) effects of drug residues in food on human intestinal microbiology, d) effects on bacteria of human health concern (antimicrobial resistance) and e) pivotal residue chemistry. During the second quarter of 2011, we announced that the FDA had accepted the subsections described above and granted **Mast Out**Ò a zero milk discard time and a zero meat withhold period. Before we can obtain the Technical Section Complete Letter, we must adapt our analytical method that measures Nisin residues in milk around the newly assigned tolerance limit and transfer that method to a FDA laboratory. We submitted the validated analytical method to the FDA during the fourth quarter of 2012. We now expect to receive the HFS Technical Section Complete Letter from the FDA during the second half of 2013.

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5) Chemistry, Manufacturing and Controls (CMC): We are party to agreements with three manufacturers to produce inventory for us utilizing our proprietary technologies and processes. First, a long-term, exclusive supply agreement with Plas-Pak Inc. of Norwich, Connecticut covers the proprietary syringe that was developed specifically for **Mast Out**Ò. These syringes were used for all pivotal studies of **Mast Out**Ò. Second, a Development and Manufacturing Agreement with Lonza Sales, Ltd. of Basel, Switzerland provides for the exclusive manufacture of the Active Pharmaceutical Ingredient (API). The Lonza site in Europe is FDA-approved, compliant with cGMP regulations and subject to future FDA approval and inspection. Third, an exclusive Contract Manufacture Agreement with Norbrook Laboratories Limited of Newry, Northern Ireland, an FDA-approved drug product manufacturer, covers the formulation of the API into drug product, the sterile-fill of syringes and the final packaging. Norbrook provided these services for clinical material used in all pivotal studies of **Mast Out**Ò. The selection of and financing for the API production facility is a critical decision. We have been considering four options: 1) having this work done by a qualified contract manufacturer, 2) building a new facility, 3) leasing and modifying an existing facility and 4) transferring our technology to a partner's facility. Leasing an existing facility or transferring the technology to a partner's facility would provide us with more control and flexibility with regards to production volumes and costs than would be possible if we relied on a contract manufacturer to produce the API for us and could be less expensive and quicker to market than building a new facility. We estimate that it would take approximately eighteen months to two years to complete the necessary facility modifications and equipment installations. During the fourth quarter of 2012, we withdrew our first submission to the FDA of the CMC Technical Section because of changes we have made to our regulatory filing and manufacturing strategies. As soon as we have prepared all of the relevant information, we expect to make a revised first submission for a six-month review cycle by the FDA. We anticipate that our second submission would include the three, required validation batches produced at the FDA-inspected commercial production facility. After completing this work, we would be eligible to receive the CMC Technical Section Complete Letter from the FDA following a six-month review cycle.

Obtaining FDA approval of the CMC Technical Section defines the critical path to the submission of the administrative NADA to the FDA and ultimately to NADA approval and commercial sales. After obtaining the final Technical Section omplete Letter and after preparing materials responsive to other administrative requirements, the administrative NADA submission can be assembled for review by the FDA. This final administrative submission would be subject to a statutory sixty-day review period.

In addition to our work on **Mast Out**Ò, we are actively exploring further improvements, extensions or additions to our current product line. For example, we currently are developing treatments that could prevent bovine enteritis (calf scours) caused by enteric pathogens other than *E. coli* K99 and bovine coronavirus (the current disease claims for **First Defense**®). In connection with that effort, during the second quarter of 2009 we entered into an exclusive license with Baylor College of Medicine covering certain rotavirus vaccine technology. This perpetual license (if not terminated for cause) is subject to milestone and royalty payments. Results from pilot studies completed during the first quarter of 2009 justified continued product development. We completed a pivotal effectiveness study of this experimental formulation during the third quarter of 2011 without seeing the anticipated level of effectiveness needed for regulatory approval and market acceptance. We are currently conducting additional pilot studies of different formulations of this antibody preparation. If positive results from these pilot studies are achieved, a second pivotal

effectiveness study could be initiated during the second half of 2013. During the third quarter of 2012, we entered into an exclusive option to a license with North Carolina State University covering certain recombinant *Cryptosporidium parvum* technology that may have utility in the development of a dry (non-lactating) cow vaccine. We are developing nutritional and feed supplement product applications (that are not delivered in the capsule format) of our **First Defense Technology™**, which is a unique whey protein concentrate that is purified utilizing our proprietary milk protein processing methods that does not carry the claims of our USDA-licensed product. As additional opportunities arise to commercialize our own technology, or licensable technology, we may begin new development projects. While we continue to pursue internally funded product development programs, we also remain interested in acquiring new products and technologies that fit with our sales and marketing focus on the dairy and beef industries.

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Competition

Our competition in the animal health market includes other biotechnology companies and major animal health companies. Many of these competitors have substantially greater financial, marketing, manufacturing and human resources and more extensive product development capabilities than we do. Many may be capable of developing technologies and/or products that are superior to ours, or may be more successful in developing production capability or in obtaining required regulatory approvals. We would consider any company that sells an antibiotic to treat mastitis, such as Zoetis, Merck Animal Health and Boehringer Ingelheim, to be among the potential competitors for **Mast Out**Ò.

We may not be aware of competition that we face from other companies. Our competitive position will be highly influenced by our ability to attract and retain key scientific and managerial personnel, to develop proprietary technologies and products, to obtain USDA or FDA approval for new products, to effectively promote and market our products and to continue to profitably sell our current products. We currently compete on the basis of product performance, price and distribution capability. We continue to monitor our network of independent distributors to maintain our competitive position.

We believe that **First Defense**Ò offers two significant competitive advantages over other oral antibody products on the market. First, its capsule form does not require refrigeration and provides ease of administration. Second, **First Defense**Ò provides protection against the leading cause of calf scours (*E. coli*) and additional protection against coronavirus, another leading cause of the disease. In addition to direct competition from oral antibody products, **First Defense**Ò also competes for market share against vaccine products that are used to increase the production of antibodies by the dam that can then be transferred through the mother's milk to the calf, and against vaccine products that are administered to the newborn calf. We believe that the immediate and preformed immunity (**Immediate Immunity**)™ that **First Defense**Ò provides to the calf is a competitive advantage over the vaccine products. **First Defense**Ò also competes against scours preventives that are not licensed by the USDA.

There are many products on the market that may be used in place of **Wipe Out**Ò **Dairy Wipes**, and our product sells at a premium to most of them. These products include teat dips, teat sprays and other disposable and washable towel products offered by several different companies. Competitive advantages of **Wipe Out**Ò **Dairy Wipes** include that they are convenient to use, they do not irritate the udder, they do not adulterate the milk and they are biodegradable.

Patents, Proprietary Information and Trademarks

In connection with the December 1999 acquisition of **Wipe Out® Dairy Wipes** and the April 2000 license to all veterinary applications of Nisin from Nutrition 21, Inc., we acquired a license to six patents. In November 2004, we bought out certain future milestone and royalty obligations under the 1999 and 2000 licenses, which principally resulted in a fully paid, perpetual license related to the animal health applications of Nisin. Four of these six patents have expired or are expiring and one of the two longer-term patents may be subject to a patent term extension. In 2004, we were issued U.S. Patent No. 6,794,181 entitled “Method of Purifying Lantibiotics” covering a manufacturing process for pharmaceutical-grade Nisin.

During 2000, we were issued U.S. Patent No. 6,074,689 entitled “Colonic Delivery of Protein or Peptide Compositions” covering the method of formulation that can be used to deliver proteins to the colon. In 1999, we acquired an exclusive license for pharmaceutical applications to U.S. Patent No. 5,773,000 entitled “Therapeutic Treatment of *Clostridium difficile* Associated Diseases” from GalaGen, Inc. In 2002, we acquired ownership of this patent from the court administering the bankruptcy proceedings of GalaGen. These patents are included in a royalty-bearing license we granted to Immuron, Ltd. (formerly known as Anadis) of Australia in 2008 for their use in the development of milk antibody products for humans.

In the future, we may file additional patent applications for certain products under development. There can be no assurance that patents will be issued with respect to any pending or future applications. In some cases, we have chosen (and may choose in the future) not to seek patent protection for certain products or processes. Instead, we have sought (and may seek in the future) to maintain the confidentiality of any relevant proprietary technology through operational measures and contractual agreements. Reliance upon trade secret, rather than patent, protection may cause us to be vulnerable to competitors who successfully replicate our manufacturing techniques and processes. Additionally, there can be no assurance that others may not independently develop similar trade secrets or technology or obtain access to our unpatented trade secrets or proprietary technology. Other companies may have filed patent applications and may have been issued patents involving products or technologies potentially useful to us or necessary for us to commercialize our products or achieve our business goals. There can be no assurance that we will be able to obtain licenses to such patents on terms that are acceptable.

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We have registered certain trademarks with the U.S. Patent and Trademark Office in connection with the sale of our products. We own federal trademark registrations of the following trademarks: ImmuCell, **First Defense**Ò, our calf scours preventive product; **Wipe Out**Ò **Dairy Wipes** and the related design and the trademark "**One Step Cow Prep**Ò", our pre-milking wipe product; and **Mast Out**Ò, our mastitis treatment product under development.

Government Regulation

We believe that we are in compliance with current regulatory requirements relating to our business and products. The manufacture and sale of animal health biologicals within the United States is generally regulated by the USDA. We have received USDA and Canadian Food Inspection Agency approval for **First Defense**Ò (our scours preventive product). **Mast Out**Ò is regulated by the FDA, Center for Veterinary Medicine, which regulates veterinary drugs. The manufacture of **Wipe Out**Ò **Dairy Wipes** also is regulated by the FDA, Center for Veterinary Medicine. Comparable agencies exist in foreign countries and foreign sales of our products will be subject to regulation by such agencies. Many states have laws regulating the production, sale, distribution or use of biological products, and we may have to obtain approvals from regulatory authorities in states in which we propose to sell our products. Depending upon the product and its applications, obtaining regulatory approvals may be a relatively brief and inexpensive procedure or it may involve extensive clinical tests, incurring significant expenses and an approval process of several years' duration.

Employees

We currently employ 25 full-time employees and 4 part-time employees. Approximately 14.55 full-time equivalent employees are engaged in manufacturing operations, 3.95 full-time equivalent employees in product development activities, 4.70 full-time equivalent employees in finance and administration and 3.80 full-time equivalent employees in sales. At times, manufacturing personnel are also utilized, as needed, in the production of clinical material for use in product development. All of our employees are required to execute non-disclosure, non-compete and invention assignment agreements intended to protect our rights in our proprietary products. We are not a party to any collective bargaining agreement and consider our employee relations to be excellent.

Executive Officers of the Company

Our executive officers as of March 20, 2013 were as follows:

MICHAEL F. BRIGHAM (Age: 52, Officer since 1991, Director since 1999) was appointed to serve as President and Chief Executive Officer in February 2000, while maintaining the titles of Treasurer and Secretary, and was appointed to serve as a Director of the Company in March 1999. He previously had been elected Vice President of the Company in December 1998 and served as Chief Financial Officer since October 1991. He has served as Secretary since December 1995 and as Treasurer since October 1991. Prior to that, he served as Director of Finance and Administration since originally joining the Company in September 1989. Mr. Brigham joined the Board of Directors of the United Way of York County in 2011, serving as Treasurer. Mr. Brigham served as the Treasurer of the Board of Trustees of the Kennebunk Free Library from 2005 to 2011. He re-joined the Finance Committee of the library in 2012. Prior to joining the Company, he was employed as an audit manager for the public accounting firm of Ernst & Young. Mr. Brigham earned his Masters in Business Administration from New York University in 1989.

JOSEPH H. CRABB, Ph.D. (Age: 58, Officer since 1996, Director since 2001) served as Chairman of the Board of Directors from June 2009 to February 2013. He was appointed a Director of the Company in March 2001, having previously served in that capacity during the period from March 1999 until February 2000. Before that, he was elected Vice President of the Company in December 1998, while maintaining the title of Chief Scientific Officer. He has served as Chief Scientific Officer since September 1998. Prior to that, he served as Vice President of Research and Development since March 1996. Prior to that, he served as Director of Research and Development and Senior Scientist since originally joining the Company in November 1988. Concurrent with his employment, he has served on national study sections and advisory panels, served as a peer reviewer, and held several adjunct faculty positions. Prior to joining the Company in 1988, Dr. Crabb earned his Ph.D. in Biochemistry from Dartmouth Medical School and completed postdoctoral studies in microbial pathogenesis at Harvard Medical School, where he also served on the faculty.

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Public Information

As a reporting company, we file quarterly and annual reports with the Securities and Exchange Commission on Form 10-Q and Form 10-K. We also file current reports on Form 8-K, whenever events warrant or require such a filing. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information about us that we file electronically with the SEC at http://www.sec.gov. Our internet address is http://www.immucell.com.

ITEM 1A – RISK FACTORS

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements include, but are not limited to, any statements relating to: projections of future financial performance; the scope and timing of future product development work and commercialization of our products; future costs of product development efforts; future sources of financial support for our product development, manufacturing and marketing efforts; the amount and timing of future investments in facility modifications and production equipment or the availability and cost of alternative manufacturing and/or distribution resources; the future adequacy of our working capital and the availability of third party financing; timing and future costs of a facility to produce API for **Mast Out®**; the timing and outcome of pending or anticipated applications for future regulatory approvals; future regulatory requirements relating to our products; future expense ratios; future compliance with bank debt covenants; future realization of deferred tax assets; costs associated with sustaining compliance with cGMP regulations in our current operations and attaining such compliance for the facility to produce API for **Mast Out®**; factors that may affect the dairy and beef industries and future demand for our products; the accuracy of our understanding of our distributors' ordering patterns; anticipated changes in our manufacturing capabilities and efficiencies; anticipated competitive and market conditions; and any other statements that are not historical facts. Forward-looking statements can be identified by the use of words such as "expects", "may", "anticipates", "intends", "would", "could", "should", "will", "plans", "believes", "estimates", "targets" and s expressions. In addition, there can be no assurance that future developments affecting us will be those that we anticipate, especially considering the effects the distress in credit and capital markets will have on our current and prospective customers and the global economy and the uncertainties surrounding the potential for a prolonged global recession. Such statements involve risks and uncertainties, including, but not limited to, those risks and uncertainties relating to difficulties or delays in development, testing, regulatory approval, production and marketing of our products, competition within our anticipated product markets, the uncertainties associated with product development, manufacturing reliance upon third parties for products and services, changes in laws and regulations, decision making by regulatory authorities, currency fluctuations and other risks detailed from time to time in filings we make with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q, our Annual Reports on Form 10-K and our Current Reports on Form 8-K. Such statements are based on our current expectations, but actual results

may differ materially due to various factors, including the risk factors summarized below and uncertainties otherwise referred to in this Annual Report.

Projection of net income: After nine consecutive years of reporting net income, we reported a net loss for the years ended December 31, 2011, 2010, 2009 and 2008, due in large part to our product development strategy. By reducing our investment in the development of **Mast Out^{O}** and increasing sales of **First Defense®**, we were able to record net operating income of $245,000 and net income of $90,000 during the year ended December 31, 2012. Due principally to an anticipated increase in product development expenses during 2013 (over 2012 levels, but still less than 2011 levels), we expect 2013 results to be near breakeven. Generally speaking, our financial performance can differ significantly from management projections, due to numerous factors that are difficult to predict or that are beyond our control. Stronger than expected sales of **First Defense®**, for example, could increase our net income. Conversely, weaker than expected sales of **First Defense®** could lead to less profits.

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*Reliance on sales of **First Defense®**:* We are heavily reliant on the market acceptance of **First Defense®** to generate product sales and fund our operations. Our business would not have been profitable during either the nine consecutive years in the period ended December 31, 2007 or the year ended December 31, 2012, and our net losses would have been larger during the four years in the period ended December 31, 2011, without the gross margin that we earned from the sale of **First Defense®**.

Economics of the dairy industry: The U.S. dairy industry has been facing very difficult economic pressures. Sales of our products may be influenced by the prices of milk, calves and milking cows. The size (annual average) of the U.S. dairy herd ranged from approximately 9,011,000 to 9,199,000 cows from 1998 to 2007. This annual average jumped to 9,315,000 cows in 2008. The annual average then declined to 9,203,000 in 2009 and further to 9,119,000 in 2010 before increasing to 9,194,000 in 2011. The average herd size increased to 9,231,000 in 2012. The total cattle inventory in the United States fell to the lowest level in 60 years, largely due to the drought which scorched pastures, causing many ranchers to shrink herds. As of January 1, 2013, dairy and beef farmers held approximately 90.8 million head of cattle, which was down 2.1% from a year earlier and represented the lowest level since 1952. While the number of cows in the U.S. herd and the production of milk per cow directly influence the supply of milk to the market, demand for milk has been influenced by very volatile international demand for milk products. The Class III milk price is an industry benchmark that reflects the value of product used to make cheese. The Class III milk price (which is largely out of the direct control of individual dairy producers) is an important indicator because it defines our customers' revenue level. For 2010, this price level averaged $14.41, which represents a 27% increase from 2009. This price level averaged $18.37 for 2011, which represents a 27% increase from 2010. This average price level for 2011 was higher than the annual average reached in any of the past 30 years, but then it began to decline in 2012. For 2012, this price level averaged $17.44, which represents a 5% decrease from 2011. The actual level of milk prices may be less important than their level relative to costs. The recent improvement in milk prices has been offset, in part, by higher feed costs. One measure of this relationship is known as the milk-to-feed price ratio, which represents the amount of feed that one pound of milk can buy. Whenever this ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk. For 2010, this ratio averaged approximately 2.26, representing a 27% increase compared to 2009. For 2011, this ratio averaged approximately 1.88, representing a 17% decrease compared to 2010. For 2012, this ratio averaged approximately 1.52, representing a 19% decrease compared to 2011. The ratio of 1.52 is the lowest recorded since this ratio was first reported in 1985. This means that a dairy producer can buy only 1.52 pounds of feed for every pound of milk sold. An increase in feed costs also has a negative impact on the beef industry. Widespread severe drought conditions in key U.S. agricultural regions during 2012 drove feed costs higher. Another indication of the economic condition of the dairy industry is the average price for animals sold for dairy herd replacement. This average price (reported as of January, April, July and October) averaged approximately $1,330 in 2010, which represents a 4% decrease in comparison to the same period in 2009. This price averaged approximately $1,420 in 2011, which represents a 7% increase in comparison to the same period in 2010. This price averaged approximately $1,428 in 2012, which represents a 1% increase in comparison to the same period in 2011. The industry data referred to above is compiled from USDA databases. Another factor in the demand for our product is the decline in the value of bull calves. We are trying to maintain and grow our sales for use with heifer calves to offset what we assume is a significant decrease in the use of our product for bull calves. Given our focus on the dairy and beef industries, the financial insecurity of our primary customer base is a risk to our ability to maintain and grow sales at a profitable level. It also heightens the challenge of selling premium-priced animal health products (such as **Mast Out™**) into such a market. Further, the loss of farms from which we buy raw material for **First Defense®** could make it difficult for us

to produce enough inventory until supply agreements are reached with replacement farms on suitable terms.

Regulatory requirements for ***Mast Out***^{Ò}: The commercial introduction of **Mast Out**^{Ò} in the United States will require us to obtain appropriate FDA approval for this product. It presently is uncertain whether or when this approval will be achieved. We are exposed to additional regulatory compliance risks through the subcontractors that we choose to work with to produce **Mast Out**^{Ò}, who also need to satisfy certain regulatory requirements in order to provide us with the products and services we need. International regulatory approvals would be required for sales outside of the United States. European regulatory authorities are not expected to approve a product with a zero milk discard claim, which would remove a significant competitive advantage of **Mast Out**^{Ò} in that territory. However, the milk discard period may be shorter for **Mast Out**^{Ò} than it is for other products on the market.

Product development risks: The development of new products is subject to financial, scientific, regulatory and market risks. Our current business growth strategy relies heavily on the development of **Mast Out**^{Ò} which requires (and will continue to require) a substantial investment. Our efforts will be subject to inspection and approval by the FDA. There is no assurance whether or when we will obtain all of the data necessary to support regulatory approval for this product.

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*Risks associated with **Mast Out**Ò funding strategy:* Completing the development of **Mast Out**Ò through to the submission of the administrative NADA to the FDA involves a great deal of risk. We may not be able to obtain financing to fund the completion of this product development effort on terms acceptable to us. We are evaluating alternative financial strategies in order to gain NADA approval and to support the product launch, which may result in our becoming dependent upon the skills and level of effort of a collaborative partner.

Uncertainty of market estimates: Even assuming that **Mast Out**Ò achieves regulatory approval in the United States with a zero milk discard requirement, estimating the size of the market for this product is subject to numerous uncertainties. Some of the uncertainties surrounding our product include the development of the subclinical mastitis

treatment market, coverage of relevant pathogens, selling price and its effect on market penetration, cost of manufacture, integration of milk from treated cows into cheese starter cultures and market acceptance.

Access to raw materials: Our policy is to maintain more than one source of supply for the components used to manufacture and test our products. However, there is a risk that we could have difficulty in efficiently acquiring essential supplies. We are dependent on our manufacturing operations and facility at 56 Evergreen Drive in Portland, Maine for the production of **First Defense**Ò and **Wipe Out**Ò **Dairy Wipes**. The specific antibodies that we purify for **First Defense**Ò and the Nisin we produce by fermentation for **Wipe Out**Ò **Dairy Wipes** are not readily available from other sources. We expect to be dependent on Plas-Pak and Norbrook for the manufacture of **Mast Out**Ò if that product proceeds to commercialization, and we may become dependent on a collaborative partner for certain development, manufacturing and sales and marketing services. Any significant damage to or other disruption in the services at these facilities could adversely affect the production of inventory and result in significant added expenses and loss of sales.

Concentration of sales: A large portion of our product sales (49%, 52% and 50% for the years ended December 31, 2012, 2011, and 2010, respectively) was made to two large distributors. A large portion of our trade accounts receivable (42% as of December 31, 2012 and 45% as of December 31, 2011) was due from these two distributors. We have a good history with these distributors, but the concentration of sales and accounts receivable with a small number of customers does present a risk to us. During 2012, 80% of our product sales were made to customers in the U.S. dairy and beef industries. This compares to 81% during of 2011.

Risks associated with USDA and international regulatory oversight: **First Defense®**, and modifications and extensions thereto, is subject to the jurisdiction of the Center for Veterinary Biologics, USDA. Similar regulatory oversight risks exist in territories outside of the United States where we sell our products.

*Regulatory requirements for **First Defense**Ò*: **First Defense**Ò is sold in the United States subject to a product license approval from the USDA, first obtained in 1991. The potency of serial lots is directly traceable to the original serial used to obtain the product performance claims (the "Reference Standard"). Due to the unique nature of the **First Defense**Ò label claims, host animal re-testing is not required as long as periodic laboratory analyses continue to support the stability of stored Reference Standard. To date, these analyses have demonstrated strong stability. However, if the USDA were not to approve requalification of the Reference Standard, additional clinical studies could be required to meet regulatory requirements and allow for continued sales of the product.

Product risks generally: The sale of our products is subject to financial, efficacy, regulatory and competitive and other market risks. We cannot be sure that we will be able to maintain the regulatory compliance required to continue selling our products. There is no assurance that we will continue to achieve market acceptance at a profitable price level or that we can continue to manufacture our products at a sufficient gross margin.

Product Liability: The manufacture and sale of certain of our products entails a risk of product liability. Our exposure to product liability is mitigated to some extent by the fact that our products are principally directed towards the animal health market. We have maintained product liability insurance in an amount which we believe is reasonable in relation to our potential exposure in this area.

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Regulatory requirements for ***Wipe Out® Dairy Wipes***: While the FDA regulates the manufacture and sale of **Wipe Out® Dairy Wipes**, this type of product is permitted to be sold without a NADA approval, in accordance with the FDA's Compliance Policy Guide 7125.30 ("Teat Dips and Udder Washes for Dairy Cows and Goats"). This policy guide could be withdrawn at the FDA's discretion, in which case we would likely discontinue sales of the product. The manufacture of **Wipe Out® Dairy Wipes** is subject to Part 211 of the cGMP regulations. As such, our operations are subject to inspection by the FDA. We continue to invest in personnel, facility improvements and new equipment to sustain compliance with cGMP regulations across our entire product line. In June 2007, we received a Warning Letter from the FDA citing deficiencies in specific areas of the cGMP regulations. We filed a response to the FDA in June 2007, and we responded to a request for additional information in April 2008. We believe we have substantially corrected the deficiencies cited, but have received no further communications from the FDA on this subject. We remain subject to the risk of adverse action by the FDA in this respect.

Small size; dependence on key personnel: We are a small company with 25 full-time and 4 part-time employees. As such, we rely on certain key employees to support different operational functions, with limited redundancy in capacity. The loss of any of these key employees could adversely affect our operations until a qualified replacement is hired and trained. Our competitive position will be highly influenced by our ability to attract and retain key scientific, managerial and sales and marketing personnel, to develop proprietary technologies and products, to obtain USDA or FDA approval for new products and to continue to profitably sell our current products. We currently compete on the basis of product performance, price and distribution capability. We continue to monitor our network of independent distributors to maintain our competitive position.

Competition from others: Many of our competitors are significantly larger and more diversified in the relevant markets, and have substantially greater financial, marketing, manufacturing and human resources and more extensive product development capabilities than we do, including greater ability to withstand adverse economic or market conditions and declining revenues and/or profitability. The market for the treatment of mastitis in dairy cows is highly competitive, and presently is dominated by large companies such as Zoetis, Merck and Boehringer Ingelheim. There is no assurance that **Mast Out®** will compete successfully in this market. We may not be aware of other companies that compete with us or intend to compete with us in the future.

Exposure to risks associated with the financial downturn and global economic crisis: The U.S. economy appears to be coming out of a recession, caused principally by the housing, credit and financial crises. However, such recent positive indications could prove temporary and further downturn could occur, and the European economy remains sluggish and precarious. The credit markets continue to be very turbulent and uncertain. Sales and financial performance are still down at many businesses. This extraordinary period of instability facing the U.S. economy and the financial markets has been troubling for nearly all Americans. Some observers believe that the national unemployment rate is too high, the housing market remains problematic for the overall U.S. economy, the United States has taken on too much national debt and that the equity markets are overvalued. A continued and prolonged economic downturn could have a corresponding negative effect on our business and operations, including our ability

to penetrate key foreign markets.

Failure to protect intellectual property: In some cases, we have chosen (and may choose in the future) not to seek patent protection for certain products or processes. Instead, we have sought (and may seek in the future) to maintain the confidentiality of any relevant proprietary technology through operational safeguards and contractual agreements. Reliance upon trade secret, rather than patent, protection may cause us to be vulnerable to competitors who successfully replicate our manufacturing techniques and processes. Additionally, there can be no assurance that others may not independently develop similar trade secrets or technology or obtain access to our unpatented trade secrets or proprietary technology. Other companies may have filed patent applications and may have been issued patents involving products or technologies potentially useful to us or necessary for us to commercialize our products or achieve our business goals. There can be no assurance that we will be able to obtain licenses to such patents on terms that are acceptable. There is a risk that competitors could challenge the claims in patents that have been issued to us.

Bovine diseases: The potential for epidemics of bovine diseases such as Foot and Mouth Disease, Bovine Tuberculosis, Brucellosis and Bovine Spongiform Encephalopathy (BSE) presents a risk to us and our customers. Documented cases of BSE in the United States have led to an overall tightening of regulations pertaining to ingredients of animal origin, especially bovine. **First Defense**Ò is considered a veterinary medicine rather than a feed ingredient, and it is manufactured from bovine milk (colostrum), which is not considered a BSE risk material. Future regulatory action to increase protection of the human food supply could affect **First Defense**Ò, although presently we do not anticipate that this will be the case.

Biological terrorism: The threat of biological terrorism is a risk to both the economic health of our customers and our ability to economically acquire and collect good quality raw material from our contract farms. Any act of widespread bioterrorism against the dairy industry could adversely affect our operations.

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No expectation to pay any dividends for the foreseeable future: We do not anticipate paying any dividends to our stockholders for the foreseeable future. Instead, we expect to use cash to fund product development costs. Any debt or equity financing we obtain to assist in funding our product development programs may include terms prohibiting or restricting our paying dividends or repurchasing stock for a lengthy period. Stockholders must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Any determination to pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable laws and other factors our Board of Directors deems relevant.

Market for common stock: Our common stock trades on the NASDAQ Stock Market (NASDAQ: ICCC). Our average daily trading volume is lower than the volume for most other companies and the bid/ask stock price spread can be larger, which could result in investors facing difficulty selling their stock for proceeds that they may expect or desire.

Our reporting obligations as a public company are costly: Operating a public company involves substantial costs to comply with reporting obligations under federal securities laws and the provisions of the Sarbanes-Oxley Act of 2002.

ITEM 2 – DESCRIPTION OF PROPERTY

We own a 27,750 square foot building at 56 Evergreen Drive in Portland, Maine. We currently use this space for substantially all of our office, laboratory and manufacturing needs. When we originally purchased this building in 1993, its size was 15,000 square feet, including 5,000 square feet of unfinished space on the second floor. In 2001, we completed a construction project that added approximately 5,200 square feet of new manufacturing space on the ground level. The 2001 facility addition also added approximately 4,100 square feet of storage space on the second floor. In 2007, we completed a renovation project converting the 5,000 square feet of unfinished space on the second floor into usable office space. After moving first floor offices into this space, we modified and expanded the laboratory space on the first floor. As part of the 2007 project, we also added approximately 2,500 square feet of storage space on the second floor. During 2009, we added 600 square feet to the second floor storage area and 350 square feet of cold storage space connected to our ground floor production area. We funded these investments with available cash. These investments are an integral part of our strategy to increase our production capacity and to be compliant with cGMP regulations in our manufacturing operations.

We rent approximately 550 square feet of office and warehouse space in New York on a short-term basis to support our farm operations.

We maintain property insurance in amounts that approximate replacement cost and a modest amount of business interruption insurance. We also maintain access to certain animals, primarily cows, through contractual relationships with commercial dairy farms.

ITEM 3 – LEGAL PROCEEDINGS

None

ITEM 4 – MINE SAFETY DISCLOSURES

None

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PART II

ITEM 5 – MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Capital Market tier of the NASDAQ Stock Market under the symbol ICCC. No dividends have been declared or paid on the common stock since its inception, and we do not anticipate or contemplate the payment of cash dividends in the foreseeable future. The following table sets forth the high and low sales price information for our common stock as reported by the NASDAQ Stock Market during the period January 1, 2011 through December 31, 2012:

	2012 Three Months Ended				2011 Three Months Ended			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
High	$6.08	$ 6.80	$ 7.00	$ 5.50	$3.80	$ 8.50	$ 8.33	$ 6.40
Low	$4.50	$ 4.60	$ 4.84	$ 3.76	$2.91	$ 3.12	$ 4.57	$ 4.49

As of March 20, 2013, we had 8,000,000 common shares authorized and 3,019,034 common shares outstanding, and there were approximately 1,000 shareholders of record. The last sales price of our common stock on March 20, 2013 was $3.53 per share as quoted on the NASDAQ Stock Market.

Equity Compensation Plan Information

The table below summarizes the common stock reserved for issuance upon the exercise of stock options outstanding as of December 31, 2012 or that could be granted in the future:

	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of shares remaining available for future issuance under stock-based compensation plans (excluding shares reflected in first column of this table)

Equity compensation plans approved by stockholders	213,000	$ 3.13	250,500
Equity compensation plans not approved by stockholders	—	—	—
Total	213,000	$ 3.13	250,500

ITEM 6 – SELECTED FINANCIAL DATA

The selected financial data set forth below has been derived from our audited financial statements. The information should be read in conjunction with the audited financial statements and related notes appearing elsewhere in this Form 10-K and in earlier reports filed on Form 10-K (in thousands, except for per share amounts).

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Product sales	$5,390	$5,111	$4,386	$4,506	$4,628
Gross margin	3,054	2,814	2,302	2,398	2,069
Product development expenses	918	1,720	1,493	1,645	1,746
Selling and administrative expenses	1,892	1,726	1,500	1,283	1,496
Net operating income (loss)	245	(633)	(690)	(530)	(1,173)
Other expenses (revenues), net	53	64	(7)	(101)	(212)
Income (loss) before income taxes	192	(697)	(683)	(429)	(961)
Net income (loss)	$90	$(410)	$(385)	$(216)	$(469)

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	Year Ended December 31,				
	2012	2011	2010	2009	2008
Per Common Share:					
Basic net income (loss)	$0.03	$(0.14)	$(0.13)	$(0.07)	$(0.16)
Diluted net income (loss)	$0.03	$(0.14)	$(0.13)	$(0.07)	$(0.16)
Cash dividend	—	—	—	—	—
Statement of Cash Flows Data:					
Net cash provided by (used for) operating activities	$344	$(37)	$(809)	$(110)	$53

	As of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$4,914	$4,960	$4,626	$4,585	$5,054
Total assets	11,030	10,991	10,751	9,985	10,128
Current liabilities	666	635	525	363	484
Net working capital	6,697	6,516	6,441	5,944	6,245
Long-term liabilities	1,170	1,336	944	—	—
Stockholders' equity	$9,195	$9,020	$9,282	$9,622	$9,644
Per Outstanding Common Share:					
Cash, cash equivalents and short-term investments	$1.63	$1.65	$1.56	$1.54	$1.75
Stockholders' equity	$3.05	$3.00	$3.12	$3.24	$3.33

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

We had approximately $4,914,000 in available cash and short-term investments as of December 31, 2012. The table below summarizes the changes in selected, key balance sheet items (in thousands, except for percentages):

	As of December 31,		(Decrease) Increase	
	2012	2011	$	%
Cash, cash equivalents and short-term investments	$4,914	$4,960	$(46)	(1)%

Net working capital	6,697	6,516	182	3
Total assets	11,030	10,991	39	0.4
Stockholders’ equity	$9,195	$9,020	$174	2 %

Cash, cash equivalents and short-term investments decreased by 1%, or $46,000, to $4,914,000 at December 31, 2012 from $4,960,000 at December 31, 2011. Net cash provided by operating activities amounted to $344,000 during the year ended December 31, 2012 in contrast to net cash used for operating activities of $37,000 during the year ended December 31, 2011. Capital investments of $275,000 during 2012 compared to capital investments of $244,000 during 2011. Net working capital increased by 3%, or $182,000, to $6,697,000 at December 31, 2012 from $6,516,000 at December 31, 2011. During 2012 we repaid $173,000 in bank debt. Proceeds from bank debt received during 2011 aggregated $455,000, net of debt repayments made during 2011. Total assets increased by less than 1%, or $39,000, to $11,030,000 at December 31, 2012 from $10,991,000 at December 31, 2011. Stockholders' equity increased by 2%, or $174,000, to $9,195,000 at December 31, 2012 from $9,020,000 at December 31, 2011. We believe that we have sufficient capital resources to meet our working capital requirements and to finance our ongoing business operations during at least the next twelve months.

ImmuCell Corporation

During the third quarter of 2010, we agreed to terms of certain credit facilities with TD Bank, N.A. aggregating up to approximately $2,100,000, which are secured by substantially all of our assets. These credit facilities are comprised of a $1,000,000 ten-year mortgage loan, a $600,000 fifty-four month note and a $500,000 line of credit. Proceeds from the $1,000,000 mortgage loan were received during the third quarter of 2010. Proceeds from the $600,000 note were received during the first quarter of 2011. As of December 31, 2012, our outstanding bank debt balance was approximately $1,268,000. The $500,000 line of credit is available as needed. We believe that this debt financing (together with available cash and gross margin from ongoing product sales) provides us with sufficient funding to finance our working capital requirements while completing the first submissions to the FDA of all Technical Sections pertaining to **Mast Out**Ò. We chose debt financing because we believe that in this market environment, the option to generate funds through the sale of equity securities at an acceptable level of stockholder dilution is very unlikely.

Since 1999, our strategy has been focused on selling and developing products that improve animal health and productivity in the dairy and beef industries. These product opportunities are generally less expensive to develop than the human health product opportunities that we had worked on during the 1990's. We funded most of our product development expenses principally from product sales and were profitable for each of the nine years in the period ended December 31, 2007. During this nine years of profitability, our cumulative investment in product development expenses of $9,894,000 was supported, in part, by $3,880,000 in licensing revenue, technology sales and grant income. Our strategic decision to continue developing **Mast Out**Ò after the product rights were returned to us in 2007 caused us to increase our spending on product development expenses that were previously funded by a former partner from late 2004 to mid-2007. After these nine consecutive years of profitability, we incurred net losses of $469,000, $216,000, $385,000 and $410,000 during the years ended December 31, 2008, 2009, 2010 and 2011, respectively. As anticipated, a reduction in product development expenses during 2012 helped us return to profitability. Due principally to an anticipated increase in product development expenses (for ongoing **Mast Out**Ò expenses and an increased investment in other new product development expenses) above the 2012 investment but still less than the 2011 expense level, we expect 2013 results to be near breakeven. We believe that the two key indicators of our financial performance going forward will be the gross margin on our product sales and our net operating income. The investment of an additional $7,521,000 in product development expenses during 2008 thru 2012 brings our cumulative investment to $17,416,000 during the fourteen-year period ended December 31, 2012. We may, on occasion, seek additional research grant support as a means of leveraging the funds that we are able to spend developing new products. We continue to look for new product acquisition opportunities that would have a strategic fit with the products that we currently sell.

A significant investment primarily related to the manufacture of the Active Pharmaceutical Ingredient (API) (principally related to manufacturing scale-up and preparations of full-scale batches) remains ahead to complete the **Mast Out**Ò product development initiative. Our initial plan was to have the API produced for us under contract in order to avoid the investment in a manufacturing facility. By the end of 2011, we determined that the large minimum production volumes and high cost imposed by the selected contract manufacturer were not commercially sustainable. We believe that controlling the manufacture of the API ourselves, rather than hiring a contractor, would improve our competitiveness and increase our opportunity for success. As a result, we developed a plan to build a production facility for the API and, with assistance from prospective builders, we estimated that it would require approximately

$13,000,000 to construct a new manufacturing facility. Because the actual cost could be higher, we have evaluated strategic alternatives to new construction. During the fourth quarter of 2012, we projected that we could reduce this upfront investment by leasing an existing facility rather than constructing a new one, and we engaged an engineering firm to estimate these costs. The resulting engineering report estimated these costs to be in the range of $11,000,000 to $13,000,000. In addition to the use of some of our cash, we are seeking debt issuance, equity financing and/or an investment from a partner as well as possible state and other financial incentives to support the investment required to manufacture the API. Absent such funding, we have not initiated the construction of our own API manufacturing facility or the leasing of an existing facility as of this date. Because we believe that the appropriate development and marketing partner would maximize the commercial sales potential for **Mast Out**Ò, we continue to seek a partnership that would provide guaranteed cash and/or minimum levels of funding and ongoing revenue in return for marketing rights. The information that we have learned during negotiations with potential partners to date has increased our confidence in the likelihood of achieving FDA approval and in the potential value of the market opportunity for **Mast Out®**. We believe that the evolution of our thinking relating to these strategic alternatives demonstrates the flexibility and creativity required to solve this financing challenge.

ImmuCell Corporation

As part of our sustained investment in compliance with cGMP regulations across our product lines and as we make other process improvements, we are investing in personnel, equipment and facility modifications to increase the efficiency and quality of our operations. The size of this investment in capital expenditures for facility modifications and production equipment is subject to review and approval by our Board of Directors. As of January 1, 2013, we had remaining available authorization to spend up to approximately $157,000 on capital expenditures, which authorized amount is net of increases aggregating $200,000 during 2012 that were approved by our Board of Directors.

Off-Balance Sheet Arrangements

None

Results of Operations

2012 Compared to 2011

Product Sales

Product sales for the year ended December 31, 2012 increased by 5.5%, or $279,000, to $5,390,000 from $5,111,000 in 2011. Domestic product sales increased by 4%, or $155,000, during the year ended December 31, 2012, and international sales increased by 13%, or $124,000, in comparison to 2011. For the three-month period ended December 31, 2012, product sales increased by 9%, or $116,000, in comparison to the three-month period ended December 31, 2011. We believe our increased investment in sales and marketing personnel and efforts is helping us introduce **First Defense**Ò to new customers. We believe that sales of our products were influenced by the relatively strong prices of milk, cows and calves which values were partially offset by the increased cost of feed.

Competition for resources that dairy producers allocate to their calf enterprises has been increased by the many new products that have been introduced to the calf market. While milk prices have improved recently, much of this gain has been offset by increases in the cost of feed. Even in this challenging market, our lead product, **First Defense**Ò, continues to benefit from wide acceptance by dairy and beef producers as an effective tool to prevent bovine enteritis (scours) in newborn calves. It is our production and customer service objective to ship orders within one day of

receipt. We have been operating in accordance with this objective since the third quarter of 2009. Sales of **First Defense**Ò aggregated 89% of our total product sales during both of the years ended December 31, 2012 and 2011. Sales of **First Defense**Ò increased by 5% during the year ended December 31, 2012 in comparison to 2011. Domestic sales of **First Defense**Ò increased by 4%, and international sales increased by 10%. Sales of **First Defense**Ò are normally seasonal, with higher sales expected during the first quarter. With the single exception of the second quarter of 2012, we have been experiencing consistently positive sales growth of **First Defense**Ò since the fourth quarter of 2010, as demonstrated below:

5%: Fiscal Year 2012 over Fiscal Year 2011

16%: Fourth Quarter 2012 over Fourth Quarter 2011

9%: Third Quarter 2012 over Third Quarter 2011

(17%): Second Quarter 2012 under Second Quarter 2011

13%: First Quarter 2012 over First Quarter 2011

21%: Fiscal Year 2011 over Fiscal Year 2010

7%: Fourth Quarter 2011 over Fourth Quarter 2010

22%: Third Quarter 2011 over Third Quarter 2010

37%: Second Quarter 2011 over Second Quarter 2010

21%: First Quarter 2011 over First Quarter 2010

13%: Fourth Quarter 2010 over Fourth Quarter 2009

We believe that the growth in sales of **First Defense**Ò may reflect, at least in part, the success of our strategic decision first implemented in 2010 to invest in additional sales and marketing efforts. We launched a communications campaign at the end of 2010 that is highlighting how the unique features of **First Defense**Ò provide a dependable return on investment for producers. Effective for 2011 and for 2012, we entered into a sales and marketing collaboration with AgriLabs, under which the AgriLabs sales and marketing teams worked with us to expand market demand for **First Defense**Ò.

ImmuCell Corporation

Through our **First Defense Technology™**, we are selling whey concentrate globulin proteins in different formats. During the first quarter of 2011, we initiated sales of our **First Defense Technology™** in a bulk powder format, which is delivered by dissolving our powder in liquid for feeding to calves. During the first quarter of 2012, we initiated a limited launch of a new format of our **First Defense Technology™** in a paste formulation that is delivered through an oral syringe. Through two collaborations, we are working to expand sales of our **First Defense Technology™**. During the first quarter of 2011, AgriLabs launched commercial sales of their product, Colostrx®, a colostrum supplement with **First Defense Technology™ Inside**. During the fourth quarter of 2011, Milk Products, LLC of Chilton, Wisconsin launched commercial sales of their product, Ultra Start® 150 Plus, a colostrum replacer with **First Defense Technology™ Inside**.

Sales of **Wipe Out® Dairy Wipes** decreased by 6% during the year ended December 31, 2012 in comparison to 2011. We believe that sales growth potential for **Wipe Out® Dairy Wipes** is limited because most of our sales of this product tend to be to smaller dairies that are under continued financial pressures. Such pressures are forcing many small dairy producers out of business. While our product is a high quality tool, there are less expensive ways to sanitize a cow prior to milking, and many producers opt for a less expensive solution. We are competing aggressively on selling price to earn new business against less expensive products and alternative teat sanitizing methods. Sales of **CMT** decreased by 28% during the year ended December 31, 2012 in comparison to 2011.

We sell bulk reagents outside of the dairy and beef industries for use in a drinking water test that is sold by others known as Isolate™ (formerly known as **Crypto-Scan®**). Sales of these bulk reagents aggregated 4% and 2% of product sales during the years ended December 31, 2012 and 2011, respectively. Sales of these bulk reagents increased by 92% during the year ended December 31, 2012 in comparison to 2011. Our animal health sales (total product sales less sales of these bulk reagents) increased by 4% during the year ended December 31, 2012 in comparison to 2011. This comparison demonstrates the growth of our core animal health business.

We generally held our product selling prices without increase during the seven year period ended December 31, 2007. During the first quarter of 2008, we implemented a modest increase to the selling price of **First Defense®**. We have implemented no significant price increases since then, believing that we could benefit more from higher unit sales than through a higher average selling price per unit.

Gross Margin

Changes in the gross margin on product sales are summarized in the following table for the respective periods (in thousands, except for percentages):

	Years Ended December 31,		Increase	
	2012	2011	Amount	%
Gross margin	$3,054	$2,814	$240	9%
Percent of product sales	57 %	55 %	2 %	3%

The gross margin as a percentage of product sales was 57% and 55% during the years ended December 31, 2012 and 2011, respectively. This compares to gross margin percentages of 52% and 53% for the years ended December 31, 2010 and 2009, respectively. Our current annual target is to maintain the gross margin percentage above 50%. A number of factors account for the variability in our costs. We expect some fluctuations in gross margin percentages from quarter to quarter. The gross margin on **First Defense**Ò is affected by biological yields from our raw material, which do fluctuate over time. More generally, costs for production of **First Defense**Ò and **Wipe Out**Ò **Dairy Wipes** have increased due to increased labor costs and expenses associated with our efforts to sustain compliance with cGMP regulations in our production processes. Like most U.S. manufacturers, we have been experiencing increases in the cost of raw materials that we purchase. We have been able to minimize the impact of these cost increases by implementing yield improvements. Product mix also affects gross margin in that we earn a higher gross margin on **First Defense**Ò and a lower gross margin on **Wipe Out**Ò **Dairy Wipes**. Our inventory balance was reduced by 1%, or $17,000, to $1,649,000 at December 31, 2012 from $1,666,000 at December 31, 2011. This level of investment was made in both periods to help prevent a potential backlog of orders. We have not experienced a backlog of orders since the third quarter of 2009.

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Sales and Marketing Expenses

Sales and marketing expenses increased by approximately 12%, or $103,000, to $973,000 in 2012, increasing to 18% of product sales in 2012 from 17% in 2011. We continue to leverage the efforts of our small sales force through veterinary distributors. These expenses have increased due principally to a strategic decision to invest more to support **First Defense**Ò sales. This investment may have created, at least in part, our recent increase in product sales. Our current budgetary objective in 2013 is to invest up to 20% of product sales in sales and marketing expenses on an annual basis.

Administrative Expenses

Administrative expenses increased by approximately 7%, or $62,000, to $918,000 during the year ended December 31, 2012 as compared to $857,000 during 2011. We strive to be efficient with these expenses while funding costs associated with complying with the Sarbanes-Oxley Act of 2002 and other costs associated with being a publicly-held company. At this stage in our development, we have limited our investment in investor relations spending. We provide a full disclosure of the status of our business and financial condition in three quarterly reports and one annual report each year. Additional information about our business is available in our annual Proxy Statement. All of these reports are filed with the SEC and are available on-line or upon request to the Company. Presently, our financial and time resources are committed principally to managing our commercial business and developing **Mast Out**Ò. Our Board of Directors is very involved with and supportive of this resource allocation. While this strategy of providing cost-effective investor relations through our SEC reporting is subject to change, we believe that this focus currently is in the best long-term interest of all stockholders.

Product Development Expenses

Product development expenses decreased by 47%, or $802,000, to $918,000 during the year ended December 31, 2012, as compared to $1,720,000 during 2011. We expected lower product development expenses during the year ended December 31, 2012. Product development expenses aggregated 17% and 34% of product sales in 2012 and 2011, respectively. The majority of our product development budget from 2000 through 2012 has been focused on the development of **Mast Out**Ò. Going forward, we expect to maintain a reduced level of product development expenses, which expenses will continue to be focused on **Mast Out**Ò and other improvements, extensions or additions to our **First Defense**Ò product line. The other improvements, extensions, or additions to our current product line include the potential to prevent scours in calves caused by pathogens other than those within the current **First Defense**Ò disease

claims (*E. coli* K99 and coronavirus) such as rotavirus. We also remain interested in acquiring other new products and technologies that fit with our sales focus on the dairy and beef industries. We are currently seeking funding from a partner to complete the development of **Mast Out**Ò and to support the manufacturing, sales and marketing efforts.

Other Expenses, Net

Interest income increased by approximately 11%, or $2,000, to $17,000 in 2012 in comparison to 2011. Interest expense aggregated $75,000 and $81,000 during 2012 and 2011, respectively.

Income (Loss) Before Income Taxes and Net Income (Loss)

Our income before income taxes of $192,000 during the year ended December 31, 2012 is in contrast to a loss before income taxes of ($697,000) during 2011. We recorded an income tax expense (benefit) of 53% and (41%) of the income (loss) before income taxes during the years ended December 31, 2012 and 2011, respectively. Our net income of $90,000, or $0.03 per share, during the year ended December 31, 2012 is in contrast to a net loss of ($410,000), or ($0.14) per share, during 2011.

ImmuCell Corporation

2011 Compared to 2010

Product Sales

Product sales for the year ended December 31, 2011 increased by 17%, or $725,000, to $5,111,000 from $4,386,000 in 2010. Domestic product sales increased by 16%, or $560,000, during the year ended December 31, 2011, and international sales increased by 21%, or $165,000, in comparison to 2010. For the three-month period ended December 31, 2011, product sales increased by 16%, or $181,000, in comparison to the three-month period ended December 31, 2010. We believe that sales of our products were influenced by the increased price of milk, cows and calves and partially offset by the increased cost of feed.

Competition for resources that dairy producers allocate to their calf enterprises has been increased by the many new products that have been introduced to the calf market. While milk prices have improved recently, much of this gain has been offset by increases in the cost of feed. Even in this challenging market, our lead product, **First Defense**Ò, continues to benefit from wide acceptance by dairy and beef producers as an effective tool to prevent bovine enteritis (scours) in newborn calves. During the fourth quarter of 2011, we sold our 11,000,000th dose of **First Defense**Ò . The third quarter of 2011 marked the 20th anniversary of the original USDA approval of this product in 1991. We believe that these milestones demonstrate the value of our technology and the long-term market acceptance of our product. It is our production and customer service objective to ship orders within one day of receipt. We have been operating in accordance with this objective since the third quarter of 2009. Sales of **First Defense**Ò increased by 21% during the year ended December 31, 2011 in comparison to 2010. Domestic sales of **First Defense**Ò increased by 20%, and international sales increased by 25%. Sales of **First Defense**Ò are normally seasonal, with higher sales expected during the first quarter. We have been experiencing consistently positive sales growth of **First Defense**Ò since the fourth quarter of 2010, as demonstrated below:

21%: Fiscal Year 2011 over Fiscal Year 2010

7%: Fourth Quarter 2011 over Fourth Quarter 2010

22%: Third Quarter 2011 over Third Quarter 2010

37%: Second Quarter 2011 over Second Quarter 2010

21%: First Quarter 2011 over First Quarter 2010

13%: Fourth Quarter 2010 over Fourth Quarter 2009

We believe that the growth in sales of **First Defense**Ò may reflect, at least in part, the success of our strategic decision to invest in additional sales and marketing efforts. We launched a communications campaign at the end of 2010 that is highlighting how the unique features of **First Defense**Ò provide a dependable return on investment for producers. Effective for 2011 and for 2012, we entered into a sales and marketing collaboration with AgriLabs, under which the AgriLabs sales and marketing teams are working with us to expand market demand for **First Defense**Ò.

We are investigating additional opportunities to commercialize our whey protein purification technologies in the nutritional and feed supplement markets in different formats not regulated by the USDA. **First Defense Technology**™ is a unique whey protein concentrate that is purified utilizing our proprietary whey protein processing methods. It does not carry the claims of our USDA-licensed product. Through our **First Defense Technology**™, we are selling whey concentrate globulin proteins in different formats. During the first quarter of 2011, we initiated sales of our **First Defense Technology**™ in a bulk powder format (no capsule), which is delivered with a scoop. During the first quarter of 2012, we initiated a limited launch of a tube delivery format of our **First Defense Technology**™ in a gel solution. Through two collaborations, we are working to expand sales of our **First Defense Technology**™ by accessing the U.S. feed market. During the first quarter of 2011, AgriLabs launched commercial sales of their product, Colostrx®, a colostrum supplement with **First Defense Technology**™ **Inside**. During the fourth quarter of 2011, Milk Products, LLC launched commercial sales of their product, Ultra Start® 150 Plus, a colostrum replacer with **First Defense Technology**™ **Inside**.

Sales of **Wipe Out**Ò **Dairy Wipes** decreased by 18% during the year ended December 31, 2011 in comparison to 2010. We believe that sales growth potential for **Wipe Out**Ò **Dairy Wipes** is limited because most of our sales of this product tend to be to smaller dairies that are under continued financial pressures. Such pressures are forcing many small dairy producers out of business. While our product is a high quality tool, there are less expensive ways to sanitize a cow prior to milking, and many producers opt for a less expensive solution. We are competing aggressively on selling price to earn new business against less expensive products and alternative teat sanitizing methods.

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The other products we sell primarily into the dairy industry aggregated approximately 3% of product sales during 2011 and 2010. Sales of these products were 28% higher in 2011 than the level of sales achieved in 2010. The other products we sell outside of the dairy and beef industries, principally Isolate™ (formerly known as **Crypto-Scan®**), aggregated 2% and 3% of product sales during the years ended December 31, 2011 and 2010, respectively. Sales of our bulk reagents for use in a drinking water test sold by others decreased by 21% during the year ended December 31, 2011 in comparison to 2010. During 2011, these sales were recorded during the fourth quarter. During 2010, these sales were recorded during the second quarter. Our animal health sales (total product sales less sales of the water diagnostic reagents) increased by 18% during the year ended December 31, 2011 in comparison to 2010. This comparison more accurately reflects the growth of our core animal health business.

We generally held our product selling prices without increase during the seven year period ended December 31, 2007. During the first quarter of 2008, we implemented a modest increase to the selling price of **First Defense®**. We have implemented no significant price increases since then believing that we could benefit more from higher unit sales than through a higher average selling price per unit.

Gross Margin

Changes in the gross margin on product sales are summarized in the following table for the respective periods (in thousands, except for percentages):

	Years Ended December 31,		Increase	
	2011	2010	Amount	%
Gross margin	$2,814	$2,302	$511	22%
Percent of product sales	55 %	52 %	3 %	5 %

The gross margin as a percentage of product sales was 55% and 52% during the years ended December 31, 2011 and 2010, respectively. This compares to gross margin percentages of 53% and 45% for the years ended December 31, 2009 and 2008, respectively. Our current annual target is to maintain the gross margin percentage at approximately 50%. A number of factors account for the variability in our costs. We expect some fluctuations in gross margin percentages from quarter to quarter. The gross margin on **First Defense®** is affected by biological yields from our raw material, which do fluctuate over time. More generally, costs for production of **First Defense®** and **Wipe Out® Dairy Wipes** have increased due to increased labor costs and expenses associated with our efforts to sustain compliance with cGMP regulations in our production processes. Like most U.S. manufacturers, we have been experiencing increases in the cost of raw materials that we purchase. We have been able to minimize the impact of these cost increases by

implementing yield improvements. Product mix also affects gross margin in that we earn a higher gross margin on **First Defense**Ò and a lower gross margin on **Wipe Out**Ò **Dairy Wipes**. Our inventory balance increased by 4%, or $65,000, to $1,666,000 at December 31, 2011 from $1,601,000 at December 31, 2010. This level of investment was made in both periods to help prevent a potential back log of orders. We have not experienced a back log of orders since the third quarter of 2009.

Sales and Marketing Expenses

Sales and marketing expenses increased by approximately 34%, or $219,000, to $870,000 in 2011, increasing to 17% of product sales in 2011 from 15% in 2010. We continue to leverage the efforts of our small sales force through veterinary distributors. These expenses have increased due principally to a strategic decision to invest more to support **First Defense**Ò sales and to prepare for a market launch of **Mast Out**Ò. This investment may have created, at least in part, our recent increase in product sales. Our budgetary objective in 2012 was to invest up to 20% of product sales in sales and marketing expenses on an annual basis.

ImmuCell Corporation

Administrative Expenses

Administrative expenses increased by approximately 1%, or $8,000, to $857,000 during the year ended December 31, 2011 as compared to $849,000 during 2010. We strive to be efficient with these expenses while funding costs associated with complying with the Sarbanes-Oxley Act of 2002 and other costs associated with being a publicly-held company. At this stage in our development, we have limited our investment in investor relations spending. We provide a full disclosure of the status of our business and financial condition in three quarterly reports and one annual report each year. Additional information about our business is available in our annual Proxy Statement. All of these reports are filed with the SEC and are available on-line or upon request to the Company. Presently, our financial and time resources are committed principally to managing our commercial business and developing **Mast Out**Ò. Our Board of Directors is very involved with and supportive of this resource allocation. While this strategy of providing cost-effective investor relations through our SEC reporting is subject to change, we believe that this focus currently is in the best long-term interest of all stockholders.

Product Development Expenses

Product development expenses increased by 15%, or $227,000, to $1,720,000 during the year ended December 31, 2011, as compared to $1,493,000 during 2010. We expected higher product development expenses during the year ended December 31, 2011. Product development expenses aggregated 34% of product sales in 2011 and 2010. The majority of our product development budget from 2000 through 2011 has been focused on the development of **Mast Out**Ò. Going forward, we expect to reduce our product development expenses, which expenses will continue to be focused on **Mast Out**Ò and other improvements, extensions or additions to our **First Defense**Ò product line. The other improvements, extensions, or additions to our current product line include the potential to prevent scours in calves caused by pathogens other than those within the current **First Defense**Ò disease claims (*E. coli* K99 and coronavirus) such as rotavirus. We also remain interested in acquiring other new products and technologies that fit with our sales focus on the dairy and beef industries. We are currently seeking funding from a partner to complete the development of **Mast Out**Ò and to support the manufacturing, sales and marketing efforts.

Other Expenses, Net

Interest income decreased by approximately 38%, or $10,000, to $15,000 in 2011 in comparison to 2010 due principally to a decrease in interest rates. Interest expense aggregated $81,000 and $22,000 during 2011 and 2010, respectively.

Loss Before Income Taxes and Net Loss

Our loss before income taxes of $697,000 during the year ended December 31, 2011 compares to a loss before income taxes of $683,000 during 2010. We recorded income tax benefits of 41% and 44% of the losses before income taxes during the years ended December 31, 2011 and 2010, respectively. Our net loss of $410,000, or $0.14 per share, during the year ended December 31, 2011 compares to a net loss of $385,000, or $0.13 per share, during 2010.

Critical Accounting Policies

The financial statements are presented on the basis of accounting principles that are generally accepted in the United States. All professional accounting standards that were effective and applicable to us as of December 31, 2012 have been taken into consideration in preparing the financial statements. The preparation of financial statements requires that we 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 on-going basis, we evaluate our estimates, including those related to revenue recognition, income taxes, contingencies and the useful lives and carrying values of intangible and long lived assets. We base our estimates on historical experience and on various other assumptions that we believe are 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. We have chosen to highlight certain policies that we consider critical to the operations of our business and understanding our financial statements.

ImmuCell Corporation

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition”, which supersedes SAB No. 101, “Revenue Recognition in Financial Statements”. SAB No. 104 requires that four criteria are met before revenue is recognized. These include i) persuasive evidence that an arrangement exists, ii) delivery has occurred or services have been rendered, iii) the seller’s price is fixed and determinable and iv) collectibility is reasonably assured. We recognize revenue at the time of shipment (including to distributors) for substantially all products, as title and risk of loss pass to the customer on delivery to the common carrier after concluding that collectibility is reasonably assured. We recognize service revenue at the time the service is performed. Royalty income is recorded on the accrual basis based on sales as reported to us by our licensee pursuant to the terms of the relevant agreement. All research and development costs and patent costs are expensed as incurred.

Inventory includes raw materials, work-in-process and finished goods and are recorded at the lower of standard cost which approximates cost on the first-in, first-out method or market (net realizable value). Work-in-process and finished goods inventories include materials, labor and manufacturing overhead.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that neither inflation nor interest rates nor currency exchange rates have had a significant effect on our revenues and expenses. However, future increases in inflation or interest rates or the value of the U.S. dollar could affect our customers and the demand for our products. We hedged our interest rate exposure to a $1,000,000 mortgage with an interest rate swap agreement that effectively converted a floating interest rate to the fixed rate of 6.04%. The interest rate on our $600,000 note is variable. If the London Interbank Offered Rate plus 3.25% exceeds 4.25%, our interest payments will increase over the current amount. We hope to increase the level of our future sales of products outside the United States. The cost of our products to international customers could be affected by currency fluctuations. The decline of the U.S. dollar against other currencies could make our products less expensive to international customers. We do not anticipate that currency fluctuations will significantly affect our sales or the cost of operations.

ITEM 8 – FINANCIAL STATEMENTS

Our financial statements, together with the notes thereto and the report of the independent registered public accounting firm thereon, are set forth on Pages F-1 through F-19 at the end of this report. The index to these financial statements is as follows:

ImmuCell Corporation

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

None

ITEM 9A – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our management, with the participation of the individual who serves as our principal executive and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. Based on this evaluation, that officer concluded that our disclosure controls and procedures were effective as of that date. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting. The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is 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.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included a review of the documentation of controls, evaluation of the design effectiveness of controls, testing the operating effectiveness of the controls and a conclusion on this evaluation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. Based on management's assessment and those criteria, management believes that the internal control over financial reporting as of December 31, 2012 was effective.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's internal control report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report.

Changes in Internal Controls over Financial Reporting. There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B – OTHER INFORMATION

None

ImmuCell Corporation

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to our directors is incorporated herein by reference to the section of our 2013 Proxy Statement titled “Election of the Board of Directors”, which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2012. The information required by this item with respect to our executive officers is contained in Item 1 of Part I of this Annual Report on Form 10-K under the heading “Executive Officers of the Company”. There is no family relationship between any director, executive officer, or person nominated or chosen by the Company to become a director or executive officer.

ITEM 11 – EXECUTIVE COMPENSATION

Information regarding cash compensation paid to our executive officers is incorporated herein by reference to the section of our 2013 Proxy Statement titled “Executive Officer Compensation”, which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2012.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding ownership of our common stock by certain owners and management is incorporated herein by reference to the section of our 2013 Proxy Statement titled “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters”, which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2012.

ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is incorporated herein by reference to the section of our 2013 Proxy Statement titled “Certain Relationships and Related Transactions and Director Independence”, which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2012.

ITEM 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding our principal accountant fees and services is incorporated by reference to the section of our 2013 Proxy Statement titled “Principal Accounting Fees and Services”, which we intend to file with the Securities and Exchange Commission within 120 days after December 31, 2012.

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company’s 1987 Registration Statement No. 33-12722 on Form S-1 as filed with the Commission).
3.2	Certificate of Amendment to the Company’s Certificate of Incorporation effective July 23, 1990 (incorporated by reference to Exhibit 3.2 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008).
3.3	Certificate of Amendment to the Company’s Certificate of Incorporation effective August 24, 1992 (incorporated by reference to Exhibit 3.3 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008).
3.4	Bylaws of the Company as amended (incorporated by reference to Exhibit 3.4 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008).
4.1	Rights Agreement dated as of September 5, 1995, between the Company and American Stock Transfer and Trust Co., as Rights Agent, which includes as Exhibit A thereto the form of Right Certificate and as Exhibit B thereto the Summary of Rights to Purchase Common Stock (incorporated by reference to Exhibit 4.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009).
4.1A	Second Amendment to Rights Agreement dated as of June 30, 2008 (incorporated by reference to Exhibit 4.1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008).

ImmuCell Corporation

4.1B	Third Amendment to Rights Agreement dated as of August 9, 2011 (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2011).
10.1+	Form of Indemnification Agreement (updated) entered into with each of the Company's Directors and Officers (incorporated by reference to Exhibit 10.3A to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006).
10.2+	2000 Stock Option and Incentive Plan of the Company (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
10.3+	Form of Incentive Stock Agreement (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
10.4+	Amendment to Employment Agreement between the Company and Michael F. Brigham dated March 26, 2010 (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
10.5+	Amendment to Employment Agreement between the Company and Joseph H. Crabb dated March 26, 2010 (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
10.6+	2010 Stock Option and Incentive Plan of the Company (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
10.7+	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
10.8(1)	Development and Manufacturing Agreement between the Company and Lonza Sales, Ltd. dated July 15, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010).
10.9	Commercial Promissory Note for $1,000,000 between the Company and TD Bank, N.A. dated August 13, 2010 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010).
10.10	Commercial Promissory Note for $600,000 between the Company and TD Bank, N.A. dated August 13, 2010 (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010).
10.11	Line of Credit Agreement and Promissory Note for up to $500,000 between the Company and TD Bank, N.A. dated August 13, 2010 (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010).
10.12(1)	Loan Agreement between the Company and TD Bank, N.A. dated August 13, 2010 (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010).
10.13(1)	Contract Manufacture Agreement between the Company and Norbrook Laboratories Limited dated as of September 27, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the three-month period ended September 30, 2010).
14	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
23	Consent of Baker Newman & Noyes, LLC.
31	Certifications required by Rule 13a-14(a).
32	Certification pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Management contract or compensatory plan or arrangement.

(1) Confidential treatment as to certain portions has been requested, which portions have been omitted and filed separately with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

ImmuCell Corporation

Portland, Maine

We have audited the accompanying balance sheets of ImmuCell Corporation (the Company) as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of ImmuCell Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Portland, Maine /s/ Baker Newman & Noyes
March 28, 2013 Limited Liability Company

ImmuCell Corporation

BALANCE SHEETS

	As of December 31, 2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2,673,719	$781,516
Short-term investments	2,240,000	4,178,000
Trade accounts receivable, net of allowance for doubtful accounts of $15,111 and $16,359 at December 31, 2012 and 2011, respectively	574,146	346,447
Income taxes receivable	348	648
Other receivables	36,860	36,701
Inventory	1,649,002	1,666,465
Current portion of deferred tax asset	31,177	59,016
Prepaid expenses	157,930	81,807
Total current assets	7,363,182	7,150,600
NET PROPERTY, PLANT AND EQUIPMENT, at cost	2,357,609	2,515,331
LONG-TERM PORTION OF DEFERRED TAX ASSET	1,245,982	1,306,335
OTHER ASSETS, net	63,634	19,006
TOTAL ASSETS	$11,030,407	$10,991,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accrued expenses	$255,568	$303,900
Accounts payable	228,711	149,877
Current portion of bank debt	181,491	172,973
Deferred revenue	—	8,250
Total current liabilities	665,770	635,000
LONG-TERM LIABILITIES:		
Long-term portion of bank debt	1,086,568	1,267,939
Interest rate swap	83,386	67,900
Total long-term liabilities	1,169,954	1,335,839
TOTAL LIABILITIES	1,835,724	1,970,839
STOCKHOLDERS' EQUITY:		
	326,115	326,115

Common stock, $0.10 par value per share, 8,000,000 shares authorized, 3,261,148 shares issued at December 31, 2012 and 2011		
Capital in excess of par value	9,973,146	9,911,914
Accumulated deficit	(524,803)	(614,315)
Treasury stock, at cost, 242,114 and 257,114 shares at December 31, 2012 and 2011, respectively	(529,655)	(562,469)
Accumulated other comprehensive loss	(50,120)	(40,812)
Total stockholders' equity	9,194,683	9,020,433
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,030,407	$10,991,272

The accompanying notes are an integral part of these financial statements.

ImmuCell Corporation

STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2012	2011	2010
Product sales	$5,389,935	$5,111,143	$4,386,196
Costs of goods sold	2,335,676	2,297,339	2,083,718
Gross margin	3,054,259	2,813,804	2,302,478
Sales and marketing expenses	973,217	869,869	650,889
Administrative expenses	918,441	856,606	849,064
Product development expenses	917,600	1,720,055	1,492,806
Operating expenses	2,809,258	3,446,530	2,992,759
NET OPERATING INCOME (LOSS)	245,001	(632,726)	(690,281)
Other expenses, net	52,849	63,955	(6,869)
INCOME (LOSS) BEFORE INCOME TAXES	192,152	(696,681)	(683,412)
Income tax expense (benefit)	102,640	(287,171)	(298,728)
NET INCOME (LOSS)	$89,512	$(409,510)	$(384,684)
Weighted average common shares outstanding:			
Basic	3,018,296	2,984,749	2,970,833
Diluted	3,108,419	2,984,749	2,970,833
NET INCOME (LOSS) PER SHARE:			
Basic	$0.03	$(0.14)	$(0.13)
Diluted	$0.03	$(0.14)	$(0.13)

The accompanying notes are an integral part of these financial statements.

ImmuCell Corporation

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$89,512	$(409,510)	$(384,684)
Other comprehensive (loss) income:			
Interest rate swap, before taxes	(15,486)	(77,531)	9,631
Income tax applicable to interest rate swap	6,178	27,088	—
Other comprehensive (loss) income, net of taxes	(9,308)	(50,443)	9,631
Total comprehensive income (loss)	$80,204	$(459,953)	$(375,053)

The accompanying notes are an integral part of these financial statements.

ImmuCell Corporation

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock $0.10 Par Value		Capital in Excess of	Accumulated Surplus	Treasury Stock		Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Par Value	(Deficit)	Shares	Amount	Income (Loss)	Equity
BALANCE, December 31, 2009	3,261,148	$326,115	$9,751,442	$179,879	290,496	$(635,495)	$—	$9,621,941
Net loss	—	—	—	(384,684)	—	—	—	(384,684
Other comprehensive income, net of taxes	—	—	—	—	—	—	9,631	9,631
Exercise of stock options	—	—	(563)	—	(3,000)	6,563	—	

Payments in respect of the
and premium, if any, on, a Glob
name of DTC or its nominee w
capacity as the registered holde
Under the terms of the indentur
Guarantors and the trustee will
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receiving payments and for all
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trustee nor any agent of an Issu
trustee has or will have any res

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by DTC or any of its Participan
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Cross-market transfers bet
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participants, on the other hand,
DTC in accordance with DTC's
Euroclear or Clearstream, as th
respective depositaries; howeve
transactions will require deliver
Euroclear or Clearstream, as th
counterparty in such system in
and procedures and within the
(Brussels time) of such system.
as the case may be, will, if the
settlement requirements, delive
depositary to take action to effe
behalf by delivering or receivin
Global Note in DTC, and maki
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Clearstream participants may n
directly to the depositaries for

DTC has advised us that it
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only in respect of such portion
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the right to exchange the Globa
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Although DTC, Euroclear
agreed to the foregoing procedu
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Euroclear and Clearstream, they
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may discontinue such procedur
Issuers, the Guarantors, the trus
respective agents will have any
performance by DTC, Euroclea
respective participants or indire
respective obligations under the
governing their operations.

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Exchange of Global Notes for

A Global Note is exchang
in minimum denominations of
multiples of $1,000 in excess o

(1) DTC (a) no unwilling o depositary (b) has ceas registered u and in eithe appoint a su 90 days;

(2) the Issuers, to DTC's re trustee in w cause the is Notes; or

(3) there has oc an Event of the trustee the Global Notes.

Beneficial interests in a G exchanged for Certificated Not circumstances permitted by the Certificated Notes delivered in Note or beneficial interests in registered in the names, and iss denominations, requested by or accordance with its customary the restrictive legend referred t unless that legend is not require

Neither the Issuer, the Gua be liable for any delay by DTC Participant or Indirect Participa beneficial owners of interests i Issuers, the Guarantors and the rely on, and will be protected i from DTC or its nominee for al respect to the registration and d principal amounts, of the Certif

Exchange of Certificated Not

Certificated Notes may no beneficial interests in any Glob limited circumstances provided

Same-Day Settlement and Pa

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to a Participant in DTC will be
settlement date of DTC but will
relevant Euroclear or Clearstrea
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DTC's settlement date.

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Certain Definitions

Set forth below are certain
indenture. Reference is made to
disclosure of all such terms, as
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provided.

"Acquired Debt" means, w
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Stock of a Person will be deem
other Person; and further, that a
beneficially owns 10% or more
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either the specified Person or th
because of such common owne
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"controlling," "controlled by" a
with" have correlative meaning

"Asset Sale" means:

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(13) the grant in business of of patents, therefor and property;

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(15) any Produc Sales; prov Production Sales, other compensati are reasona and Gas Bu geophysicis technical se Restricted S Company, incurred, is guaranteed financing o the acquisit subject ther

"Asset Swap" means any s contemporaneous (and in any e 180 days of each other) purchas any assets or properties used or Business between the Company Subsidiaries and another Person

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"Attributable Debt" in resp
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such lease subsequent to the fir
be so terminated.

"Available Cash" has the
term in the Partnership Agreem
of the indenture.

"Beneficial Owner" has th
term in Rule 13d-3 and Rule 13
Act, except that in calculating t
any particular "person" (as that
Section 13(d)(3) of the Exchang
be deemed to have beneficial o
that such "person" has the right
or exercise of other securities, w
currently exercisable or is exerc
occurrence of a subsequent con
"Beneficially Owns" and "Bene
correlative meanings.

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Partner or a
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"Board Resolution" means certified by the Secretary or an applicable Person to have been of Directors of such Person and effect on the date of such certif the trustee.

"Business Day" means eac Saturday, Sunday or other day institutions in New York, New payment are authorized or requ

"Capital Lease Obligation determination is to be made, th respect of a capital lease that w required to be capitalized on a with GAAP.

"Capital Stock" means:

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"Change of Control" mean
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Company or any of its Restricte
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one form of entity for Equity In
entity shall not constitute a Cha
following such conversion or e
that term is used in Section 13(
who Beneficially Owned the C
Company immediately prior to
to Beneficially Own in the aggr
the Voting Stock of such entity
applicable, or continue to Bene
Equity Interests in such entity t
directors, managers, trustees or
similar capacity for such entity
applicable, and, in either case n
Owns more than 50% of the Vo
or its general partner, as applica

"Code" means the Internal
amended from time to time, and

"Commission" or *"SEC"* n
Exchange Commission.

"Consolidated Cash Flow
any specified Person for any pe
Income of such Person for such
duplication:

(1)

an amount
expenses or
realized by
Restricted S
with an Ass
expenses or
computing
Income; *pl*

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(2)

provision fo
or profits (i
taxes accou
accordance
Person and
for such pe
provision fo
computing
Income; *pl*

(3)

Fixed Char
Restricted S
period, to th
Fixed Char
computing
Income; *pl*

(4)

depreciatio
(including a
but excludi
cash expen
period), im
based comp
other non-c
(excluding
or expense
represents a
cash charge
period or ar
cash charge
in a prior pe
its Restricte
period, to th
depreciatio
impairment
charges or
deducted in
Consolidate

(5)

if such Pers
gas operati
of a similar
consolidate
such Perso
Subsidiarie

(6)

non-cash it
Consolidate
period, othe
revenue in
business; a

(7)

to the exter
Consolidat
period, the
deferred re
during such
to reserves
Volumetric
(b) amount
with GAAP
principal ar
Dollar-Den
Payments,

in each case, on a consolidated
accordance with GAAP.

"Consolidated Net Income
any specified Person for any pe
net income (loss) of such Perso
Subsidiaries for such period, or
determined in accordance with
reduction in respect of dividend
preferred securities, provided th

(1)

the net inco
Person that
Subsidiary
accounted f
accounting
to the exter
dividends c
to the speci
Subsidiary

(2)

the net inco
Subsidiary
excluded to
declaration
or similar d
Restricted S
income is n
determinati
prior gover
not been ob
indirectly, b
its charter c
order, statu
regulation a
Subsidiary
partners or

(3)

the cumula
accounting
excluded;

(4)

any gain (lo
or other dis

plant or equ
its consolid
Subsidiarie
any sale an
which is no
disposed of

65

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business an
upon the sa
any Capital
be excluded

(5)

to the exten
calculation
Income, an
relating to a
paid, write
costs or oth
recapitaliza
with redeem
Indebtedne
Maturity w

(6)

any "ceiling
properties c
writedowns
under GAA
be excluded

(7)

any unreali
losses or ch
Hedging Co
resulting fr
FASB ASC
Derivatives

"*Consolidated Net Workin*
current assets of the Company a
Subsidiaries except current asse
Contracts, less (b) all current li
and its Restricted Subsidiaries,
included in Indebtedness, (ii) cu
with asset retirement obligation
properties and (iii) any current
Contracts, in each case as set fo
financial statements of the Com
accordance with GAAP (exclud
pursuant to FASB ASC Topic N
Hedging).

"*continuing*" means, with
Event of Default, that such Def
has not been cured or waived.

"Continuing Directors" m
determination, any member of t
the General Partner who:

(1)

was a mem
Directors o
or

(2) was nomina to such Boa approval of Continuing members o such nomin

"Credit Agreement" mean Amended and Restated Credit March 10, 2011, by and among borrower, Wells Fargo Bank, N administrative agent and the oth time party thereto, including an collateral documents, instrumen executed in connection therewi amended, restated, modified, re or refinanced from time to time

"Credit Facilities" means (including, without limitation, t commercial paper facilities or i with banks or other institutiona investors providing for revolvin receivables financing (includin receivables to such lenders or t formed to borrow from such len receivables), letters of credit or in each case, as amended, resta refunded, replaced or refinance with any capital markets transa from time to time.

"*Customary Recourse Exc* respect to any Non-Recourse D Subsidiary, exclusions from the with respect to such Non-Recou bankruptcy of such Unrestricted misapplication of cash, environ willful destruction and other cir excluded by lenders from excul included in separate indemnific non-recourse financings.

Table of Contents

"Default" means any even
passage of time or the giving o
an Event of Default.

"De Minimis Guaranteed
amount of Indebtedness that do

"Disqualified Stock" mean
by its terms (or by the terms of
is convertible, or for which it is
case at the option of the holder
upon the happening of any ever
mandatorily redeemable, pursu
obligation or otherwise, or rede
holder of the Capital Stock, in
to the date that is 91 days after
mature. Notwithstanding the pr
Capital Stock that would consti
solely because the holders of th
right to require the Company to
such Capital Stock upon the oc
control or an asset sale will not
Stock if the terms of such Capi
Company may not repurchase
Stock pursuant to such provisio
or redemption complies with th
above under the caption " Cert
Payments."

"Dollar-Denominated Pro
production payment obligations
accordance with GAAP, togeth
and obligations in connection th

"Domestic Subsidiary" me
Subsidiary of the Company tha
laws of the United States or any
or the District of Columbia and
Capital Stock is Beneficially O

"Equity Interests" means
warrants, options or other right
(but excluding any debt securit
exchangeable for, Capital Stock

"Equity Offering" means a
Capital Stock (other than Disqu
cash on a primary basis by the
the indenture, provided that at a
Change of Control, any sale of
Affiliate of the Company shall
Offering.

"Exchange Notes" means t
Exchange Offer pursuant to the

"Exchange Offer" has the
term in the applicable registrati

"Existing Indebtedness" m
principal amount of Indebtedne
Restricted Subsidiaries (other t
Credit Agreement, which is co
first paragraph under the coven
Indebtedness and Issuance of P
than intercompany Indebtednes
of the indenture, until such amo

The term *"fair market valu*
would be paid by a willing buy
seller in a transaction not involv
either party, determined in goo
Directors of the Company in th
$20.0 million or more and othe
General Partner.

"Fixed Charge Coverage R
to any specified Person for any
period, the ratio of the Consolid
Person for such period to the Fi
Person for such period. In the e
Person or any of its Restricted S
assumes, guarantees, repays, re
defeases or otherwise discharge
than ordinary working capital b
repurchases or redeems

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preferred securities subsequent
the applicable four-quarter refe
prior to the date on which the e
calculation of the Fixed Charge
(the "Calculation Date"), then t
Ratio will be calculated giving
incurrence, assumption, guaran
redemption, defeasance or othe
Indebtedness, or such issuance,
of preferred securities, and the
therefrom as if the same had oc
such period. If any Indebtednes
interest and is being given pro f
expense on such Indebtedness v
average rate in effect from the l
the Calculation Date had been t
entire period (taking into accou
Contract applicable to such Ind
remaining term of such interest
than 12 months, then such inter
only be taken into account for t
equal to the remaining term the
that is being given pro forma ef
at the option of such Person, th
calculated by applying such opt
Person. Interest on Indebtednes
determined at an interest rate ba
prime or similar rate, a eurocur
rate, or other rate, shall be deem
upon the rate actually chosen, o
such optional rate chosen as su

In addition, for purposes o
Charge Coverage Ratio:

(1)

acquisitions
the specifie
Restricted S
through me
otherwise (
assets used
Gas Busine
of its Restri
by the spec
Restricted S
in each case
transactions
Indebtedne
reference p
reference p
Calculation
made on th
given pro fo
occurred or
four-quarte
including a
Flow and a
cost reducti

are reasona
within the
reasonable
financial or
General Pa
those cost s
improveme
in pro form
accordance
promulgate
or any othe
the Commi

(2)

the Consoli
attributable
operations,
accordance
operations
ownership
of prior to t
be excluded

(3)

the Fixed C
discontinue
determined
GAAP, and
(and owner
disposed of
Date, will b
extent that
to such Fix
obligations
any of its R
following t

(4)

any Person
Subsidiary
the Calcula
to have bee
of the speci
during such

(5)

any Person
Subsidiary
the Calcula
not to have
Subsidiary
any time du
period; and

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(6)

interest inc
by such Pe
the applica
from cash
such Perso
Subsidiary
or Cash Eq
Calculation
result of th
the need to
Coverage R

"Fixed Charges" means, w
Person for any period, the sum,

(1)

the consoli
interest inc
Restricted
period, whe
(excluding
to Dollar-D
Payments,
financing c
interest cha
and abando
retirement
obligations
Indebtedne
limitation,
issuance co
discount, n
the interest
payments a
Lease Oblig
with respec
commissio
and charges
letter of cre
financings)
payments m
to interest r

plus

(2)

the consoli
such Perso
Subsidiarie

during such

(3)

any interest
another Per
such Perso
Subsidiarie
assets of su
Restricted
not such gu

upon; *plus*

(4)

all dividend
and whethe
series of Di
Person or o
securities o
Subsidiarie
payable sol
the payor (
Stock) or to
Restricted S

in each case, on a consolidated
accordance with GAAP.

"Foreign Subsidiary" mea
Subsidiary of the Company tha
Subsidiary and (b) has 50% or
assets located outside the Unite
thereof.

"GAAP" means generally
principles in the United States,
time to time.

"General Partner" means
a Delaware limited liability cor
and permitted assigns under the
general partner of the Company
with the ultimate authority to m
operations of the Company.

The term *"guarantee"* mea
by endorsement of negotiable i
the ordinary course of business
manner including, without limi
of assets, acting as co-obligor o
or reimbursement agreements i
any part of any Indebtedness. W
"guarantee" has a correlative m

"Guarantors" means each

(1)

the Subsidi
other than I
the indentu
and

Table of Contents

(2) any other R
Company t
accordance
indenture;

and their respective successors
until the Subsidiary Guarantee
released in accordance with the
indenture.

"Hedging Contracts" mea
specified Person:

(1) interest rate
rate cap agr
collar agree
one or mor
designed to
of its Restr
into the agr
in interest r
Indebtedne

(2) foreign exc
currency pr
entered into
financial in
protect the
Restricted S
the agreem
currency ex
to Indebted

(3) any commo
commodity
agreement
protect aga
price of Hy
produced, p
Person or a
Subsidiarie

(4) other agree
designed to
of its Restr
fluctuations
commodity
exchange ra

and in each case are entered int
of business and not for speculat

"Holder" means a Person i
registered.

"Hydrocarbons" means cr
casinghead gas, drip gasoline, r
condensate, distillate, liquid hy
hydrocarbons and all constituen
thereof and products refined or

"Indebtedness" means, wit
Person, any indebtedness of suc
contingent:

(1)
in respect o

(2)
evidenced b
or similar i

(3)
in respect o
credit issue
Person that
constitute I
the amount
included in
exceed the
Indebtedne
without dup
amount of a
letters of cr
of such Per

(4)
in respect o

(5)
representin
Obligations
respect of s
transactions

(6)
representin
unpaid of th
property, ex
constitutes
trade payab

(7)
representin
Hedging Co

if and to the extent any of the p
letters of credit and obligations
would appear as a liability upon
specified Person prepared in ac
addition, the term "Indebtednes
Indebtedness of other

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Persons secured by a Lien on a
Person (whether or not such In
the specified Person) and, to th
included, the guarantee by the
Indebtedness of any other Pers
to any Production Payment, an
of production or payment by su
such Production Payment, but e
obligations of such Person with
Payment).

The amount of any Indebt
any date will be:

(1) the accrete
in the case
with origin

(2) in the case
Hedging C
value of the
giving rise
would be p
such date;

(3) the principa
Indebtedne
interest on
more than
case of any

"Investments" means, with
direct or indirect investments b
Persons (including Affiliates) i
(including guarantees or other
capital contributions (excluding
and similar advances to officers
the ordinary course of business
customers in the ordinary cours
recorded as accounts receivable
the lender), purchases or other
consideration of Indebtedness,
securities, together with all iten
classified as investments on a b
accordance with GAAP. If the
Subsidiary of the Company sell
any Equity Interests of any dire
Subsidiary of the Company suc
any such sale or disposition, su
Restricted Subsidiary of the Co
be deemed to have made an Inv
such sale or disposition in an a
market value of the Equity Inte
Subsidiary not sold or disposed
determined as provided in the f
covenant described above unde

Covenants Restricted Payment
Company or any Subsidiary of
that holds an Investment in a th
to be an Investment made by th
Subsidiary in such third Person
fair market value of the Investm
Person in such third Person on
acquisition in an amount determ
final paragraph of the covenant
caption " Certain Covenants

"Joint Venture" means any
or indirect Subsidiary of the Co
Company or any of its Restricte
Investment.

"Lien" means, with respec
mortgage, lien, pledge, charge,
encumbrance of any kind in res
or not filed, recorded or otherw
applicable law, including any c
title retention agreement, any le
any option or other agreement t
interest in and any filing of or a
financing statement under the U
(or equivalent statutes) of any j
precautionary financing statem
intended as a security agreemer

"Make Whole Premium" m
note at any time, the excess, if a
value at such time of (i) the red
at June 1, 2017 *plus* (ii) any rec
due on such note through June
currently accrued and unpaid in
discount rate equal to the Treas
points,

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discounted to the redemption d
(assuming a 360-day year cons
months), over (b) the principal

"Moody's" means Moody's
any successor to the rating age

"Net Proceeds" means the
received by the Company or an
Subsidiaries in respect of any A
without limitation, any cash rec
other disposition of any non-ca
in any Asset Sale), net of:

(1) the direct c
Sale, includ
legal, accou
banking fee
severance c
expenses in
Asset Sale;

(2) taxes paid c
Asset Sale,
into accoun
or deductio
arrangemen

(3) amounts re
repayment
a Lien on th
were the su
and

(4) any amoun
reserve esta
GAAP or a
escrow, in c
in respect o
properties c
associated
retained by
Restricted S
as such res
escrow arra
which case
only the am
reversed or
Company c
Subsidiarie
arrangemen

"Non-Recourse Debt" mea

(1)

as to which
any of its R
(a) provide
(including a
or instrume
Indebtedne
indirectly li
otherwise,
Recourse E
lender;

(2)

no default v
(including a
of the Indeb
enforcemen
Unrestricte
upon notice
holder of an
(other than
or any of its
declare a de
Indebtedne
the Indebte
payable pri
and

(3)

as to which
notified in
have any re
or assets of
Restricted S
contemplat
definition o
Customary

For purposes of determini
covenant described under " Ce
of Indebtedness and Issuance o
in the event that any Non-Reco
Unrestricted Subsidiaries cease
of such Unrestricted Subsidiary
deemed to constitute an incurre
Restricted Subsidiary of the Co

"Obligations" means any p
interest (including interest accr
of any petition in bankruptcy or
whether or not a claim for post-
such proceeding), penalties, fee
indemnifications,

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reimbursement obligations, dar
other liabilities or amounts pay
documentation governing any I
thereto.

"Oil and Gas Business" m

(1)
the acquisit
developme
and disposi
and other H

(2)
the gatherir
processing
distributing
of any prod
or properti

(3)
any busines
for or deve
treatment, p
refining), st
marketing o
minerals an
association

(4)
any other b
gross incon
"qualifying
Section 770

(5)
any activity
complemen
necessary o
activities de
through (4)

"Partnership Agreement"
Restated Agreement of Limited
Company, as amended and in e
indenture and as such may be f
or supplemented from time to t

"Permitted Acquisition Ind
Indebtedness or Disqualified St
of its Restricted Subsidiaries to
Indebtedness or Disqualified St
Disqualified Stock of any other
(a) such Person became a Restr
Company or (b) such Person wa
with or into the Company or an
Subsidiaries, provided that on t
became a Restricted Subsidiary
date such Person was merged o

the Company or any of its Rest
applicable, either

(1)

immediatel
such transa
as if the sa
beginning
four-quarte
such Restri
applicable,
incur at lea
Indebtedne
Charge Co
in the first
described a
" Certain
Indebtedne
Preferred S

(2)

immediatel
such transa
as if the sa
beginning
four-quarte
Coverage R
would be e
Fixed Char
Company i
transaction

"Permitted Business Inves
made in the ordinary course of,
shall have become customary i
Business, including investment
actively exploring for, acquirin
processing, gathering, marketin
Hydrocarbons through agreeme
or arrangements that permit on
comply with regulatory require
ownership or satisfy other obje
through the conduct of the Oil
with third parties, including wi

(1)

direct or in
oil, natural
properties
gathering, t
storage or
real proper
therein; an

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(2)
the entry in
joint ventur
working int
mineral lea
farm-out ag
agreements
agreements
agreements
transportati
oil and natu
Hydrocarbo
unitization
arrangemen
agreements
partnership
general or l
customary
properties,
and Investm
connection
thereto, in e
into in the o
and Gas Bu
however, In
and publicl
partnership

"*Permitted Investments*" m

(1)
any Investm
(including,
purchases o
Subsidiary

(2)
any Investm

(3)
any Investm
any Restric
Company i
such Invest

(a)
su
R
C

(b)
su
c
a
o
su
p
li
C

S

(4)

any Investm
receipt of m
an Asset Sa
to and in co
covenant de
caption " I
Holders A
pursuant to
items deem
under the d

(5)

any Investm
exchange fo
Interests (o
Stock) of th

(6)

any Investm
compromis
creditors or
incurred in
business, in
plan of reor
arrangemen
insolvency
customer, c
foreclosure
its Restricte
to any secu

(7)

Hedging Co

(8)

Permitted I

(9)

other Inves
having an a
(measured
Investment
giving effe
value), whe
other Inves
this clause
outstanding
of $50.0 mi
Company's
Net Tangib
however, th
pursuant to
any Person
Subsidiary
of the maki
such Perso
Subsidiary
date, such I
be deemed

pursuant to
cease to ha
this clause
Person con
Subsidiary

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"*Permitted Liens*" means:

(1) any Lien w
Agreement
Facilities;

(2) Liens in fav
Guarantors

(3) Liens on pr
at the time
or into or c
Company c
of the Com
Liens were
contemplat
consolidati
assets (othe
thereon, ac
proceeds th
the Person
consolidate
Restricted S
Company;

(4) Liens on pr
of acquisiti
Company c
of the Com
Liens were
contemplat

(5) any interest
property su
Obligation;

(6) Liens for th
payment of
purchase pr
Obligations
obligations
to finance t
improveme
repairs or a
property ac
the ordinary
provided th

(a) th
a
s
o
i

a
o
a

(b)

s
w
o
c
i
r
c
o
p
L
a
o
R
C
a
a
t

(7)

Liens existi
indenture;

(8)

Liens to se
tenders, bi
surety or a
contracts, g
operating l
or other ob
incurred in
business;

(9)

Liens on a
Interests of
Subsidiary
owned by t
Restricted
to the exte
Debt or oth
Unrestricte
Venture;

(10)

Liens in re
Payments a
Liens shall
that is the s
Payments a

(11)

Liens on pi
facilities th
law;

(12)

Liens arisin
agreements
partnership
leases, farm
agreements
for the sale
exchange o
and related
minerals, u
declaration
mutual inte
agreements
course of b
and its Rest
customary
Business;

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(13)

Liens reser
leases for b
and for con
such leases

(14)

Liens upon
inventory, r
or proceeds
its Restricte
such Person
bankers' ac
securitizati
the account
the purchas
such invent
goods or pr
the covenan
Covenants
and Issuanc

(15)

Liens secur
Issuers or a
notes or the
the case ma

(16)

Liens secur
equally and
Obligations
Subsidiary
contractual
in a manne
the covenan
" Certain C

(17)

Liens to se
Hedging Co
any of its R

(18)

Liens secur
financing u
conditions,
may extend
property ot
being acqui
the proceed
or refunded
related ther

(19)

Liens arisin
overriding
net revenue
interests, re
production

rights of pu
and other s
ordinarily e
properties a
and its Rest
otherwise a
and Gas Bu

(20)

other Liens
or any Rest
Company,
effect to an
aggregate p
Indebtedne
secured by
pursuant to
exceed the
2.5% of the
Consolidate
and

(21)

any Lien re
refinancing
permitted b
(19) above,
principal an
secured by
except by a
reasonable
reasonable
expenses re
connection
amount equ
commitmen
and (b) no a
such Lien c
permitted t
immediatel
extension,
encumbered
improveme
thereto and

"Permitted Refinancing In
Indebtedness of the Company c
Subsidiaries issued in exchange
which are used to extend, refina
defease or refund other Indebte
any of its Restricted Subsidiarie
intercompany Indebtedness), pr

(1)

the principa
Permitted R
does not ex
of the Indeb
refinanced,
defeased or
interest on
amount of a

incurred in

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(2)
such Permi
Indebtedne
later than t
and has a W
Maturity eq
Weighted A
of, the Inde
refinanced,
defeased or

(3)
if the Indeb
refinanced,
defeased or
in right of p
Subsidiary
Refinancing
subordinate
the notes or
on terms at
Holders of
the docume
Indebtedne
refinanced,
defeased or

(4)
such Indebt
(other than
a Restricted
Company (
if the Comp
primary obl
being exten
replaced, de

Notwithstanding the prece
incurred under Credit Facilities
"Incurrence of Indebtedness an
Stock" shall be subject only to
the definition of Credit Facilitie
requirements set forth in the de
Refinancing Indebtedness.

"Person" means any indiv
partnership, joint venture, assoc
company, trust, unincorporated
liability company or governmen

"Prior Issue Date" means
date of the initial issuance of th
due 2020.

"Production Payments" m
Dollar-Denominated Productio
Volumetric Production Paymen

"Production Payments and grant or transfer by the Compa Subsidiary of the Company to a overriding royalty, net profits i payment (whether volumetric o partnership or other interest in reserves or the right to receive production or the proceeds fro attributable to such properties, or transfers pursuant to incentiv on terms that are reasonably cu business for geologists, geophy of technical services to the Co the Company.

"Qualifying Owners" mea Company and its Restricted Su

"Reporting Default" mean clause (4) under " Events of D

"Restricted Investment" m than a Permitted Investment.

"Restricted Subsidiary" of Subsidiary of the referent Perso Unrestricted Subsidiary. Notwi indenture to the contrary, Finan Restricted Subsidiary of the Co

"S&P" refers to Standard a division of The McGraw-Hill successor to the rating agency b

"Senior Debt" means

(1) all Indebted any of its R outstanding and all obli Contracts v

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(2) any other I
Company c
Subsidiarie
under the te
unless the i
such Indebt
expressly p
subordinate
the notes or
Guarantee;

(3) all Obligati
items listed
clauses (1)

Notwithstanding anything
preceding sentence, Senior Deb

(a) any interco
Company c
Subsidiarie
its Affiliate

(b) any Indebte
violation of

For the avoidance of doub
include any trade payables or ta
Company or any of its Restricte

"Significant Subsidiary" m
would be a "significant subsidia
Rule 1-02 of Regulation S-X, p
Securities Act, as such Regulati
of the indenture.

"Stated Maturity" means,
installment of interest or princi
Indebtedness, the date on which
principal was scheduled to be p
documentation governing such
include any contingent obligati
repurchase any such interest or
originally scheduled for the pay

"Subsidiary" means, with
Person:

(1) any corpora
business en
partnership
company) o
the total vo

is at the tim
directly or
or one or m
Subsidiarie
combinatio

(2)

any partner
limited) or
(a) the sole
of which is
Subsidiary
there is mo
partner or
managing g
managing
Person or o
such Perso
thereof) or
controls, di
majority of
partner inte
other Votin
partnership
company,

"Subsidiary Guarantee" m
Guarantor of the Issuers' Obliga
and on the notes.

"Treasury Rate" means th
time of computation of United
with a constant maturity (as co
most recent Federal Reserve St
H.15(519) which has become p
two Business Days prior to the
(or, if such Statistical Release i
publicly available source of sim
nearly equal to the period from
June 1, 2017; provided, howev
equal to the constant maturity o
security for which a weekly ave
Company shall obtain the Treas
interpolation (calculated to the
year) from the weekly average
Treasury securities for which su
that if the period from the reden
is less than one year, the weekl
traded United States Treasury s
constant maturity of one year sh
will (a) calculate the Treasury
Business Day preceding the

78

Table of Contents

applicable redemption date and
redemption date file with the tr
setting forth the Make Whole P
Rate and showing the calculatio
detail.

"Unrestricted Subsidiary"
the Company (other than Finan
by the Board of Directors of the
Unrestricted Subsidiary pursua
but only to the extent that such

(1)
has no Inde
Non-Recou
Person othe
of its Restri

(2)
is not party
contract, ar
understandi
any Restric
Company u
agreement,
understandi
the Compar
Subsidiary
obtained at
are not Affi

(3)
is a Person
neither the
Restricted S
or indirect
for addition
maintain or
financial co
Person to a
of operating

(4)
has not gua
directly or i
support for
Company c
Subsidiarie

All Subsidiaries of an Unr
also be Unrestricted Subsidiarie

Any designation of a Subs
an Unrestricted Subsidiary will
by filing with the trustee a Boar
to such designation and an offic
that such designation complied
conditions and was permitted b
above under the caption " Cert

Payments." If, at any time, any
would fail to meet the precedin
Unrestricted Subsidiary, it will
Unrestricted Subsidiary for pur
any Indebtedness of such Subsi
incurred by a Restricted Subsid
such date and, if such Indebted
incurred as of such date under t
under the caption " Certain Co
Indebtedness and Issuance of P
Company will be in default of s

"Volumetric Production P
production payment obligations
revenue in accordance with GA
related undertakings and obliga

"Voting Stock" of any Pers
the Capital Stock of such Perso
(without regard to the occurren
vote in the election of the Boar
Person.

"Weighted Average Life to
applied to any Indebtedness at
years obtained by dividing:

(1)
the sum of
multiplying
then remain
fund, serial
payments o
payment at
of the Indeb
of years (ca
one-twelfth
such date a
payment; b

(2)
the then ou
of such Ind

Table of Contents

PLAN OF DIST

You may transfer new not
exchange offer in exchange for

you acquire
exchange o
of your bus

you do not
knowledge
notes from
or understa
participate
the meanin
such new n
provisions

you are not
intend to en
the new not

you are not
meaning of
Securities A

Each broker-dealer that re
own account pursuant to the ex
for old notes that were acquired
result of market-making or othe
acknowledge that it will deliver
connection with any resale of s
prospectus, as it may be amend
time to time, may be used by a
connection with resales of new
for old notes, where such old n
result of market-making activit
activities.

If you wish to exchange n
in the exchange offer, you will
representations to us as describ
Offer Purpose and Effect of th
" Procedures for Tendering Y
this prospectus and in the letter
if you are a broker-dealer who
own account in exchange for ol
by you as a result of market-ma
trading activities, you will be re
that you will deliver a prospect
resale by you of such new notes

We will not receive any pr
new notes by broker-dealers. N
broker-dealers for their own ac
exchange offer may be sold fro
more transactions in any of the

in the over-

in negotiate

through the
new notes o
methods of

at market p
of resale;

at prices re
market pric

at negotiate

Any such resale may be m
or to or through brokers or deal
compensation in the form of co
from any such broker-dealer or
new notes.

Any broker-dealer that res
received by it for its own accou
exchange offer in exchange for
acquired by such broker-dealer
market-making or other trading
to be an "underwriter" within th
Securities Act. The letter of tra
acknowledging that it will deliv
prospectus, a broker-dealer wil
that it is an "underwriter" withi
Securities Act. We agreed to pe
prospectus for a period of up to
completion of the exchange off
to satisfy this prospectus delive
Furthermore, we agree to amen
prospectus during such

Table of Contents

period, if so requested, in order
disposition of any new notes by

We have agreed to pay all
exchange offer other than fees
the holders and brokerage comm
if any, and will indemnify the h
(including any broker-dealers)
including liabilities under the S

Table of Contents

**CERTAIN U.S. FEDE
CONSEQU**

The following discussion i
U.S. federal income tax conside
exchange of old notes for new n
to be a complete analysis of all
discussion is based upon the In
1986, as amended, Treasury Re
Revenue Service rulings and pr
decisions now in effect, all of w
change at any time by legislativ
administrative action. These ch
retroactively in a manner that c
holder of new notes. We canno
Internal Revenue Service will r
of the tax consequences describ
we have not obtained, nor do w
from the Internal Revenue Serv
counsel with respect to the U.S
described herein. Some holders
institutions, insurance compani
companies, tax-exempt organiz
or currencies, persons whose fu
the U.S. dollar or persons who
hedge, conversion transaction,
reduction transaction may be su
discussed below.

**We recommend that each hol
advisor as to the particular ta
exchanging such holder's old
including the applicability an
state, local or other tax laws o
considerations.**

The exchange of old notes
an exchange or otherwise a taxa
U.S. federal income tax purpos
will not recognize gain or loss u
in exchange for an old note in t
holder's basis and holding perio
the same as its basis and holdin
corresponding old note immedi

Table of Contents

LEGAL MA

The validity of the new no
exchange offer will be passed o
Houston, Texas.

**INDEPENDENT REG
ACCOUNTI**

The consolidated balance
Reserves LP as of December 3
related consolidated statements
equity, and cash flows for each
year period ended December 3
prospectus by reference from L
annual report on Form 10-K fo
December 31, 2013 have been
USA, LLP, an independent reg
firm, incorporated herein by ref
authority of said firm as experts
accounting.

INDEPENDENT RES

Information about our esti
and the future net cash flows at
natural gas reserves of Legacy
December 31, 2013 contained i
annual report for the year ende
on Form 10-K and incorporated
prepared by LaRoche Petroleu
independent reserve engineer a
estimates are incorporated here
authority of such firms as exper

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LETTER OF TR

to Ten
Outstanding Unregiste
Notes du
of

LEGACY RES
LEGACY R
FINANCE COR

Pursuant to the Exchange
dated

THE EXCHANGE OFF
WITHDRAWAL RIGHTS W
5:00 P.M., NEW YORK CIT
2015 (THE "EXPIRATION D
EXCHANGE OFFER IS EX
ISSUERS (AS DEFINED BE

The Exchange Agent for t

Wells Fargo Ba
Associa

By Registered or Certified Mail:	**By Overn Deliver**
Wells Fargo Bank, N.A. MAC N9303-121 P.O. Box 1517 Minneapolis, Minnesota 55480 Attn: Corporate Trust Operations	Wells Fa Bank, N MAC N9303-1 6th & Marq Avenu Minneapo Minneso 55479 Attn: Corp Trust Opera

FACSIMILE TRANSMIS
CONFIRM BY TELEPH

If you wish to exchange cu
unregistered 6.625% Senior No
for an equal aggregate principa
registered 6.625% Senior Notes
pursuant to the exchange offer,
(and not withdraw) old notes to
to the Expiration Date.

The undersigned hereby ac
prospectus, dated ,
Legacy Reserves LP and Legac
Corporation (collectively, the "
transmittal (the "Letter of Trans
describe the Issuers' offer (the "
exchange the old notes for a lik
new notes that have been regist
Act of 1933, as amended (the "
Capitalized terms used but not
respective meanings given to th

The Issuers reserve the rig
time to time, to extend the Excl
discretion, in which event the te
mean the latest date to which th
extended. The Issuers shall noti
and each registered holder of th
extension by oral or written not
York City time, on the next bus
previously scheduled Expiratio

This Letter of Transmittal
the old notes. Tender of old not
to the Automated Tender Offer
Depository Trust Company ("D
procedures set forth in the Pros
"Exchange Offer Procedures fo
participants that are accepting t
transmit their acceptance to DT
acceptance and execute a book-
Exchange

A-1

Table of Contents

Agent's DTC account. DTC wi
computer-generated message k
message" to the Exchange Age
you to validly tender your old n
Offer, the Exchange Agent mus
Expiration Date, an agent's mes
procedures that confirms that:

DTC has re
tender your

you agree t
this Letter

**BY USING THE ATOP
TENDER OLD NOTES, YOU
REQUIRED TO DELIVER T
TRANSMITTAL TO THE E
HOWEVER, YOU WILL BE
TERMS, AND YOU WILL B
MADE THE ACKNOWLED
REPRESENTATIONS AND
CONTAINS, JUST AS IF YO**

Table of Contents

**PLEASE READ THE
INSTRUCTIONS**

Ladies and Gentlemen:

(1) By tenderin
Exchange Offer, you
Prospectus and this L

(2) By tenderin
Exchange Offer, you
you have full authorit
described above and
and deliver any addit
by the Issuers to be n
complete the tender o

(3) You unders
old notes pursuant to
forth in the Prospectu
agreement between th
Issuers as to the term
in the Prospectus.

(4) By tenderin
Exchange Offer, you
Exchange Offer is be
interpretations contai
issued to third parties
Securities and Excha
"SEC"), including Ex
Corp., SEC No-Actio
May 13, 1988), Morg
SEC No-Action Lette
and Shearman & Ster
Letter (available July
notes issued in excha
pursuant to the Excha
for resale, resold and
holders thereof witho
registration and prosp
of the Securities Act
who purchased old no
new notes directly fro
pursuant to Rule 144
exemption under the
such holder that is an
within the meaning o
Securities Act), provi
are acquired in the or
holders' business and
participating in, and h
any other person to p
distribution of such n

(5) By tenderin
Exchange Offer, you

warrant that:

(a

(b

(c

(d

You may, if you
the representations ar
Item 5 above and as c
Registration Rights A
below), elect to have
in the shelf registratio
the registration rights
May 13, 2014 (the "R
Agreement"), by and
initial guarantors part
Securities, LLC,

A-3

Table of Contents

Merrill Lynch, Pierce
Incorporated, RBC C
UBS Securities LLC,
Markets Inc., Barclay
Morgan Securities LL
the Initial Purchasers
election may be made
writing at 303 W. Wa
Midland, TX 79701,
By making such elect
of old notes participa
to indemnify and hold
guarantors, and their
of the officers of the
who signs such shelf
each person who con
the guarantors, within
Securities Act or the
1934, as amended, an
directors, partners, em
and agents of each su
against any and all lo
liabilities caused by a
alleged untrue statem
contained in any shel
prospectus, or in any
amendment thereof, o
or alleged omission to
fact required to be sta
make the statements
circumstances under
misleading; but only
relating to the unders
by or on behalf of the
use in a shelf registra
prospectus or any am
thereto. Any such ind
governed by the term
conditions set forth in
Agreement, including
provisions regarding
counsel, contribution
set forth therein. The
indemnification provi
Rights Agreement is
exhaustive and is qua
Registration Rights A

(6) If you are a
receive new notes for
exchange for old note
result of market- mak
trading activities, you
tendering old notes in
you will deliver a pro
any resale of such ne
acknowledging and b
you will not be deem
"underwriter" within
Securities Act.

(7) If you are a
notes held for your ov
acquired as a result o
trading activities, suc
exchanged pursuant t

(8) Any of you
shall be binding upon
executors, administra
and legal and persona

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INSTRUC
FORMING PART OF
CONDITIONS OF THE

1.
Book-Entr

Any confirmation of a boo
Exchange Agent's account at D
by book-entry transfer (a "Book
well as an agent's message and
required by this Letter of Trans
the Exchange Agent at its addre
5:00 p.m., New York City time

2.
Partial Ter

Tenders of old notes will b
minimum denominations of $2,
of $1,000 in excess thereof. The
of old notes delivered to the Ex
deemed to have been tendered u
communicated to the Exchange
principal amount of all old note
notes for the principal amount o
and new notes issued in exchan
accepted will be delivered to th
DTC promptly after the old not
exchange.

3.
Validity of

All questions as to the vali
(including time of receipt), acc
tendered old notes will be deter
their sole discretion, which dete
binding. The Issuers reserve the
any or all tenders not in proper
exchange of which may, in the
Issuers, be unlawful. The Issuer
right to waive any of the condit
or any defect or irregularity in t
The Issuers' interpretation of th
the Exchange Offer (including
Letter of Transmittal) will be fi
parties. Unless waived, any def
connection with tenders of old
such time as the Issuers shall de
Issuers intend to notify holders
with respect to tenders of old n
Exchange Agent nor any other
duty to give notification of any
tenders or incur any liability fo
notification. Tenders of old not
have been made until such defe

been cured or waived. Any old
Exchange Agent that are not pr
which the defects or irregulariti
waived will be returned by the
tendering holders, unless otherw
of Transmittal, as soon as pract
Expiration Date.

4.

Requests f
Additional

Requests for assistance or
Prospectus or this Letter of Tra
the Exchange Agent at the addr
set forth on the cover page of th
Holders may also contact their
bank, trust company or other no
concerning the Exchange Offer

5.

Withdraw

Tenders may be withdraw
limited withdrawal rights set fo
the caption "Exchange Offer W

6.

No Guaran

There is no procedure for
in the Exchange Offer.

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Dealer Prospectus Delivery O

Until , all de
transactions in these securities,
participating in the offering, ma
prospectus. This is in addition t
deliver a prospectus when actin
respect to unsold allotments or

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PART

INFORMATION NO
PROSPE

Item 20. Indemnification o

Legacy Reserves LP

Under our partnership agr
circumstances, we will indemn
to the fullest extent permitted b
losses, claims, damages or simi

our general

any departi

any person
of a genera
general par

any person
officer, me
trustee of a
preceding t

any person
director, of
fiduciary o
at the reque
any departi

any person
partner.

Any indemnification unde
be out of our assets. Unless it o
general partner will not be pers
any obligation to contribute or
enable us to effectuate, indemn
insurance against liabilities ass
incurred by persons for our acti
whether we would have the pow
person against liabilities under

Legacy Reserves Finance Cor

Section 145 of the Genera
State of Delaware, among othe

Delaware corporation to indem
or is a party, or is threatened to
threatened, pending or complet
proceeding (other than an actio
corporation) by reason of the fa
was a director, officer, employe
corporation, or is or was servin
corporation as a director, office
another corporation or other en
(including attorneys' fees), judg
paid in settlement actually and
in connection with such action,
acted in good faith and in a ma
believed to be in or not opposed
corporation, and, with respect t
proceeding, had no reasonable
conduct was unlawful. Similar
such persons against expenses
actually and reasonably incurre
connection with the defense or
threatened, pending or complet
person acted in good faith and i
believed to be in or not opposed
corporation, provided that (unle
jurisdiction otherwise provides
have been adjudged liable to th
indemnification may be made o
specific case upon a determinat
disinterested directors or by ind
written opinion that indemnific
indemnitee has met the applica

Section 145 further author
purchase and maintain insuranc
who is or was a director, office
corporation, or is or was servin
corporation as a director, office
another corporation or other

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enterprise, against any liability
incurred by him in any such ca
status as such, whether or not t
otherwise have the power to in
Section 145. Also, the bylaws o
Corporation provide for the ind
officers, employees or agents o
officers who serve at the reque
directors, officers, employees o
enterprise against certain liabili
circumstances.

**Legacy Reserves GP, LLC an
Operating GP LLC**

Legacy Reserves GP, LLC
Legacy Reserves LP, and Lega
Operating GP LLC are organiz
State of Delaware. Under the D
Company Act, a limited liabilit
have the power to, indemnify a
member or manager or other pe
and all claims and demands wh

The limited liability comp
Reserves GP, LLC provides tha
indemnified and held harmless
against any and all losses, clai
and other amounts (collectively
any and all claims, demands, ac
in which such director may be i
management of the affairs of th
director will not be provided w
indemnification if a court of co
determined that such Losses re
gross negligence or willful mis

The limited liability comp
Reserves Operating GP LLC pr
any additional members, any af
and any directors or officers of
former member, director or offi
partner, director, officer, fiduci
or entity described in clauses (i
"Indemnitees") shall be indemn
the company from and against a
damages and settlements arisin
demands, actions, suits or proc
criminal, administrative or inve
member is involved, as a party
its status as an Indemnitee. Hov
not be held harmless if there ha
non-appealable judgment enter
jurisdiction determining that, th
faith or engaged in fraud, willfu
case of a criminal matter, acted
Indemnitee's conduct was unlaw

Legacy Reserves Operating L

The limited partnership ag
Reserves Operating LP provide
partner, any additional general
of such general partner, (ii) any
or any subsidiary of the partner
partner, director, officer, fiduci
or entity described in clauses (i
"Indemnitees") shall be indemn
the partnership from and agains
claims, damages, liabilities, joi
judgments, fines and settlement
claims, demands, actions, suits
civil, criminal, administrative o
the member is involved, as a pa
of its status as an Indemnitee. H
will not be held harmless if the
non-appealable judgment entere
jurisdiction determining that, th
faith or engaged in fraud, willfu
case of a criminal matter, acted
Indemnitee's conduct was unlaw

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Legacy Reserves Services, Inc

Legacy Reserves Services the laws of the state of Texas. T Organizations Code ("TBOC") corporations. Section 8.051 of t (a) An enterprise shall indemni former governing person, or de expenses actually incurred by th with a proceeding in which the because the person is or was a g delegate if the person is wholly or otherwise, in the defense of t that determines, in a suit for ind governing person, former gover entitled to indemnification unde indemnification and award to th incurred in securing the indemn

Section 8.052 states that: (governing person, former gover and after notice is provided as r court may order an enterprise to the extent the court determines reasonably entitled to indemnif relevant circumstances. (b) This regard to whether the governing person, or delegate applying to requirements of Section 8.101 c (1) to the enterprise; or (2) beca received a personal benefit, wit benefit resulted from an action official capacity. (c) The indem court under this section is limit if the governing person, former delegate is found liable: (1) to t (2) because the person improper benefit, without regard to whet from an action taken in the pers

Section 8.101 states that: (indemnify a governing person, or delegate who was, is, or is th respondent in a proceeding to th Section 8.102 if it is determined Section 8.103 that: (1) the perso (B) reasonably believed: (i) in t person's official capacity, that t the enterprise's best interests; a that the person's conduct was n enterprise's best interests; and (proceeding, did not have a reas person's conduct was unlawful; expenses, the amount of expens reasonable; and (3) indemnifica (b) Action taken or omitted by delegate with respect to an emp performance of the person's dut reasonably believed by the pers

the participants and beneficiari
purpose that is not opposed to t
enterprise. (c) Action taken or
another enterprise for a purpose
the delegate to be in the interes
its owners or members is for a
to the best interests of the enter
not fail to meet the standard un
solely because of the terminatio
(1) judgment; (2) order; (3) sett
(5) a plea of nolo contendere or

Section 8.102 states that: (
Subsection (b), an enterprise m
person, former governing perso
judgment; and (2) expenses, oth
are reasonable and actually incu
connection with a proceeding. (
this subchapter of a person who
enterprise or is found liable bec
received a personal benefit: (1)
expenses actually incurred by th
with the proceeding; (2) does n
penalty, a fine, and an excise or
excise tax assessed against the
employee benefit plan; and (3)
relation to a proceeding in whic
found liable for: (A) willful or
the performance of the person's
(B) breach of the person's duty
enterprise; or

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(C) an act or omission not com
constitutes a breach of a duty o
enterprise. (c) A governing pers
person, or delegate is considere
in relation to a claim, issue, or
is established by an order, inclu
of a court, and all appeals of th
foreclosed by law.

Section 8.105(b) states tha
indemnify an officer to the sam
indemnification is required und
governing person.

**Item 21. Exhibits and Fina
Schedules.**

(a) The following docum
this Registration Statement, inc
incorporated herein by referenc
Company under the Securities
indicated in parentheses:

Exhibit Number	
4.1*	Registration Rig June 29, 2006, b Holdings LP an Legacy Reserve Registration Rig (Incorporated by Reserves LP's R Form S-1 (File September 5, 20
4.2*	Registration Rig March 15, 2006 Reserves LP, Le and the other pa "Founders Regi Agreement") (In Legacy Reserve Statement on Fo No. 333-134056 Exhibit 4.3).
4.3*	Registration Rig April 16, 2007, Associates, Inc. Reserves GP, L Reserves LP (In Legacy Reserve Form 10-Q (File May 14, 2007,
4.5*	Registration Rig May 13, 2014, b Reserves LP, Le Corporation, the

	and Wells Fargo Lynch, Pierce, F Incorporated, R UBS Securities Markets Inc., Ba Morgan Securit of the Initial Pu (Incorporated by Reserves LP's C (File No. 001-3 Exhibit 4.2).
4.6*	Indenture, dated among Legacy R Reserves Financ Guarantors nam Bank, National (including the fo due 2020) (Inco Legacy Reserve Form 8-K (File December 10, 2
4.7*	Indenture, dated among Legacy R Reserves Financ Guarantors nam Bank, National (including form due 2021)(Incor Legacy Reserve Form 8-K (File May 31, 2013, F
5.1**	Opinion of And the validity of th
12.1**	Statement regar

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Exhibit Number	
21.1*	List of subsidiar (Incorporated by Reserves LP's A Form 10-K (File February 27, 20
23.1**	Consent of BDO
23.2**	Consent of LaR Consultants, Ltd
23.3**	Consent of And in Exhibit 5.1).
24.1**	Power of Attorn signature page a
25.1**	Statement of Eli Wells Fargo Ba

*
Incorporated by refer

**
Filed herewith.

(b) Financial Statement S

Schedules are omitted bec required or are not applicable o information has been included the notes thereto or elsewhere h

Item 22. Undertakings.

Insofar as indemnification the Securities Act may be perm and controlling persons of the r advised that, in the opinion of t Commission, such indemnifica and is, therefore, unenforceable for indemnification against such payment by any registrant of ex a director, officer or controlling the successful defense of any ac asserted by such director, office connection with the securities b registrant will, unless in the opi matter has been settled by contr a court of appropriate jurisdicti such indemnification by it is ag expressed in the Securities Act the final adjudication of such is

Each registrant hereby und

To file, during any period
being made, a post-effective an
registration statement to:

(a) include any
Section 10(a)(3) of th

(b) reflect in th
events arising after th
registration statement
post-effective amend
individually or in the
fundamental change i
in this registration sta
the foregoing, any inc
volume of securities
value of securities of
which was registered
the low or high end o
offering range may b
prospectus filed with
Rule 424(b) if, in the
volume and price rep
change in the maximu
set forth in the "Calcu
table in the effective

II-5

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(c) to include a
with respect to the pl
previously disclosed
statement, or any mat
information in this re

That, for the purpose of de
under the Securities Act of 193
amendment shall be deemed to
statement relating to the securit
offering of such securities at th
be the initial bona fide offering

To remove from registrati
post-effective amendment any
registered that remain unsold at
offering.

That, for the purpose of de
the Securities Act of 1933 to ar
registrant is subject to Rule 430
pursuant to Rule 424(b) as part
relating to an offering, other tha
relying on Rule 430B or other t
reliance on Rule 430A, shall be
included in the registration stat
first used after effectiveness; pr
statement made in a registration
that is part of the registration st
document incorporated or deem
reference into the registration s
is part of the registration statem
with a time of contract of sale p
supersede or modify any statem
registration statement or prospe
registration statement or made
immediately prior to such date

That, for the purpose of de
registrant under the Securities A
purchaser in the initial distribut
primary offering of securities o
to this registration statement, re
underwriting method used to se
purchaser, if the securities are o
purchaser by means of any of th
communications, the undersign
seller to the purchaser and will
sell such securities to such purc

(a) any prelimi
prospectus of the und
relating to the offerin
pursuant to Rule 424

(b) any free wr
the offering prepared
registrant or used or
undersigned registran

(c) the portion
prospectus relating to
material information
registrants or their se
behalf of such registr

(d) any other c
offer in the offering r
the purchaser.

That, for purposes of deter
the Securities Act of 1933, each
annual report pursuant to Sectio
the Securities Exchange Act of
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Table of Contents

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To supply by means of a p
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SIGNAT

Pursuant to the requiremer
the following registrant certifie
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statement to be signed on its be
thereunto duly authorized, in th
Texas, on December 16, 2014.

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Each person whose signatu
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any and all capacities, to sign a
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attorneys-in-fact and agents, an
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confirming all that said attorney
each of them, or the substitute o
them, may lawfully do or cause
hereof.

Pursuant to the requiremer
1933, as amended, this Registra
signed below by the following
and on the dates indicated.

Signature	Title
/s/ CARY D. BROWN Cary D. Brown	Chairman, President a Chief Exec Officer (Principal Executive Officer)
/s/ JAMES DANIEL WESTCOTT James Daniel Westcott	Executive V President a Chief Finar Officer (Principal Financial Officer)

Table of Contents

Signature	Title
/s/ MICAH C. FOSTER Micah C. Foster	Chief Accounting Officer and Controller (Principal Accounting Officer)
/s/ PAUL T. HORNE Paul T. Horne	Executive President, Operating Officer and Director
/s/ KYLE A. MCGRAW Kyle A. McGraw	Executive President, Developme Officer and Director
/s/ DALE A. BROWN Dale A. Brown	Director
/s/ WILLIAM R. GRANBERRY William R. Granberry	Director
/s/ G. LARRY LAWRENCE G. Larry Lawrence	Director
/s/ KYLE D. VANN Kyle D. Vann	Director
/s/ WILLIAM D. SULLIVAN William D. Sullivan	Director

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and on the dates indicated.

Signature	Title

/s/ CARY D. BROWN Cary D. Brown	Director, President a Chief Exec Officer (Principal Executive Officer)
/s/ JAMES DANIEL WESTCOTT James Daniel Westcott	Executive V President a Chief Finar Officer (Principal Financial Officer)
/s/ MICAH C. FOSTER Micah C. Foster	Chief Accounting Officer and Controller (Principal Accounting Officer)

II-10

Table of Contents

Signature	Title
/s/ KYLE A. MCGRAW	Director
Kyle A. McGraw	
/s/ PAUL T. HORNE	Director
Paul T. Horne	

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/s/ JAMES DANIEL WESTCOTT James Daniel Westcott	Executive President a Chief Fina Officer (Principal Financial Officer)

Table of Contents

Signature	Title
/s/ MICAH C. FOSTER Micah C. Foster	Chief Accounting Officer and Controller (Principal Accounting Officer)
/s/ PAUL T. HORNE Paul T. Horne	Executive Vice President, Chief Operating Officer and Director
/s/ KYLE A. MCGRAW Kyle A. McGraw	Executive Vice President, Business Development Officer and Director
/s/ DALE A. BROWN Dale A. Brown	Director
/s/ WILLIAM R. GRANBERRY William R. Granberry	Director
/s/ G. LARRY LAWRENCE G. Larry Lawrence	Director
/s/ KYLE D. VANN Kyle D. Vann	Director
/s/ WILLIAM D. SULLIVAN William D. Sullivan	Director

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/s/ JAMES DANIEL WESTCOTT James Daniel Westcott	Executive President a Chief Fina Officer (Principal Financial Officer)

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/s/ JAMES DANIEL WESTCOTT James Daniel Westcott	Executive V President a Chief Finar Officer (Principal Financial Officer)
/s/ MICAH C. FOSTER Micah C. Foster	Chief Accounting Officer and Controller (Principal Accounting Officer)
/s/ KYLE A. MCGRAW Kyle A. McGraw	Director
/s/ PAUL T. HORNE Paul T. Horne	Director

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INDEX TO E

Exhibit Number	
4.1*	Registration Righ June 29, 2006, be and Legacy Reser Reserves GP, LL Rights Agreemen reference to Lega Registration State No. 333-134056) Exhibit 4.3).
4.2*	Registration Righ March 15, 2006, Reserves LP, Leg the other parties t Registration Righ (Incorporated by Reserves LP's Re Form S-1 (File N September 5, 200
4.3*	Registration Righ April 16, 2007, b Associates, Inc., and Legacy Reser reference to Lega Report on Form 1 filed May 14, 200
4.5*	Registration Righ May 13, 2014, by Reserves LP, Leg Corporation, the and Wells Fargo Lynch, Pierce, Fe Incorporated, RB UBS Securities L Markets Inc., Ban Morgan Securitie the Initial Purcha (Incorporated by Reserves LP's Cu (File No. 001-332 Exhibit 4.2).
4.6*	Indenture, dated a among Legacy Re Reserves Finance Guarantors name Bank, National A (including the for due 2020) (Incorp Legacy Reserves Form 8-K (File N December 10, 20

4.7*	Indenture, dated a Legacy Reserves Finance Corporat therein and Wells Association, as tr the 6.625% senio 2021)(Incorporate Reserves LP's Cu (File No. 001-332 Exhibit 4.1).
5.1**	Opinion of Andre the validity of the
12.1**	Statement regardi
21.1*	List of subsidiarie (Incorporated by Reserves LP's An (File No. 001-332 2013, Exhibit 21.
23.1**	Consent of BDO
23.2**	Consent of LaRoc Consultants, Ltd.
23.3**	Consent of Andre Exhibit 5.1).
24.1**	Power of Attorne signature page att
25.1**	Statement of Elig Wells Fargo Bank

* Incorporated by refer

** Filed herewith.