UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2020.

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission file number 0-17988

Neogen Corporation
(Exact name of registrant as specified in its charter)

Michigan	**38-2367843**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

620 Lesher Place
Lansing, Michigan 48912
(Address of principal executive offices, including zip code)

(517) 372-9200
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of August 31, 2020, there were 53,041,102 shares of Common Stock outstanding.

NEOGEN CORPORATION AND SUBSIDIARIES
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PART I – FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements

Neogen Corporation and Subsidiaries
Consolidated Balance Sheets (unaudited)
(in thousands, except share and per share amounts)

	August 31, 2020	May 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	$ 60,947	$ 66,269
Marketable securities	306,539	277,404
Accounts receivable, less allowance of $1,350 and $1,350 at August 31, 2020 and May 31, 2020, respectively	77,685	84,681
Inventories	97,573	95,053
Prepaid expenses and other current assets	13,955	13,999
Total Current Assets	556,699	537,406
Net Property and Equipment	80,593	78,671
Other Assets		
Right of use assets	1,756	1,952
Goodwill	111,675	110,340
Other non-amortizable intangible assets	15,366	15,217
Amortizable intangible and other assets, net of accumulated amortization of $46,773 and $44,690 at August 31, 2020 and May 31, 2020, respectively	55,503	53,596
Total Assets	$821,592	$797,182
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 22,537	$ 25,650
Accrued compensation	5,501	7,735
Income taxes	4,597	1,456
Other accruals	13,807	13,648
Total Current Liabilities	46,442	48,489
Deferred Income Taxes	18,306	18,125
Other Non-Current Liabilities	5,298	5,391
Total Liabilities	70,046	72,005
Commitments and Contingencies (note 8)		
Equity		
Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.16 par value, 120,000,000 shares authorized, 53,041,102 and 52,945,841 shares issued and outstanding at August 31, 2020 and May 31, 2020, respectively	8,487	8,471
Additional paid-in capital	264,184	257,693
Accumulated other comprehensive loss	(15,707)	(19,709)
Retained earnings	494,582	478,722
Total Stockholders' Equity	751,546	725,177
Total Liabilities and Stockholders' Equity	$821,592	$797,182

See notes to interim consolidated financial statements.

Neogen Corporation and Subsidiaries
Consolidated Statements of Income (unaudited)
(in thousands, except per share amounts)

	Three Months Ended August 31, 2020	Three Months Ended August 31, 2019
Revenues		
Product revenues	$ 87,935	$ 81,948
Service revenues	21,390	19,476
Total Revenues	109,325	101,424
Cost of Revenues		
Cost of product revenues	46,595	42,031
Cost of service revenues	12,428	11,199
Total Cost of Revenues	59,023	53,230
Gross Margin	50,302	48,194
Operating Expenses		
Sales and marketing	16,516	17,543
General and administrative	11,013	10,699
Research and development	3,878	3,688
Total Operating Expenses	31,407	31,930
Operating Income	18,895	16,264
Other Income (Expense)		
Interest income	722	1,510
Other expense	193	(122)
Total Other Income	915	1,388
Income Before Taxes	19,810	17,652
Provision for Income Taxes	3,950	3,000
Net Income	$ 15,860	$ 14,652
Net Income Per Share		
Basic	$ 0.30	$ 0.28
Diluted	$ 0.30	$ 0.28
Weighted Average Shares Outstanding		
Basic	52,992	52,292
Diluted	53,285	52,684

See notes to interim consolidated financial statements.

Neogen Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)
(in thousands)

	Three Months Ended August 31,	
	2020	2019
Net income	$15,860	$14,652
Other comprehensive income (loss), net of tax: foreign currency translations	4,121	(3,058)
Other comprehensive income (loss), net of tax: unrealized gain (loss) on marketable securities	(119)	562
Total comprehensive income	$19,862	$12,156

See notes to interim consolidated financial statements.

Neogen Corporation and Subsidiaries
Consolidated Statements of
Equity (unaudited)
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, June 1, 2020	52,946	$8,471	$257,693	$ (19,709)	$478,722	$725,177
Exercise of options and share-based compensation expense	86	14	5,825	—	—	5,839
Issuance of shares under employee stock purchase plan	9	2	666	—	—	668
Net income for the three months ended August 31, 2020	—	—	—	—	15,860	15,860
Other comprehensive income for the three months ended August 31, 2020	—	—	—	4,002	—	4,002
Balance, August 31, 2020	53,041	$8,487	$264,184	$ (15,707)	$494,582	$751,546

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, June 1, 2019	52,217	$8,355	$221,937	$ (11,640)	$419,247	$637,899
Exercise of options and share-based compensation expense	196	30	9,683	—	—	9,713
Issuance of shares under employee stock purchase plan	10	2	536	—	—	538
Net income for the three months ended August 31, 2019	—	—	—	—	14,652	14,652
Other comprehensive loss for the three months ended August 31, 2019	—	—	—	(2,496)	—	(2,496)
Balance, August 31, 2019	52,423	$8,387	$232,156	$ (14,136)	$433,899	$660,306

See notes to interim consolidated financial statements.

Neogen Corporation and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Three Months Ended August 31, 2020	Three Months Ended August 31, 2019
Cash Flows From Operating Activities		
Net Income	$ 15,860	$ 14,652
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,720	4,435
Share-based compensation	1,681	1,543
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	8,350	3,390
Inventories	(1,319)	(2,132)
Prepaid expenses and other current assets	(1,045)	(1,929)
Accounts payable, accruals and other changes	(3,113)	3,760
Net Cash From Operating Activities	25,134	23,719
Cash Flows For Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(4,248)	(6,469)
Proceeds from the sale of marketable securities	139,184	94,540
Purchases of marketable securities	(168,318)	(103,432)
Business acquisitions, net of cash acquired	(2,350)	—
Net Cash For Investing Activities	(35,732)	(15,361)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	5,095	8,708
Net Cash From Financing Activities	5,095	8,708
Effect of Foreign Exchange Rates on Cash	181	(2,465)
Net Increase (Decrease) In Cash and Cash Equivalents	(5,322)	14,601
Cash and Cash Equivalents, Beginning of Period	66,269	41,688
Cash and Cash Equivalents, End of Period	$ 60,947	$ 56,289

See notes to interim consolidated financial statements.

NEOGEN CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited consolidated financial statements include the accounts of Neogen Corporation ("Neogen" or the "Company") and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included in the accompanying unaudited consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three-month period ended August 31, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2021. For more complete financial information, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2020.

Our functional currency is the U.S. dollar. We translate our non-U.S. operations' assets and liabilities denominated in foreign currencies into U.S. dollars at current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in other comprehensive income (loss). Gains or losses from foreign currency transactions are included in other income (expense) on our consolidated statement of income.

Recently Adopted Accounting Standards

Financial Instruments—Credit Losses

On June 1, 2020, the Company adopted ASU No. 2016-13—Measurement of Credit Losses on Financial Instruments, which changes how the Company measures credit losses on most financial instruments measured at amortized cost and certain other instruments, such as loans, receivables and held-to-maturity debt securities. Rather than generally recognizing credit losses when it is probable that the loss has been incurred, the revised guidance requires the Company to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the Company expects to collect over the instrument's contractual life. The adoption of this guidance did not have a material impact on our consolidated financial statements due to the Company's short-term contractual life of receivables and minimal expected losses.

Fair Value Measurements

On June 1, 2020, the Company adopted ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of fair value measurements. The adoption of this guidance did not have an impact on our consolidated financial statements.

Cloud Computing Implementation Cost

On June 1, 2020, the Company adopted ASU 2018-15, Intangible-Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract, which clarifies the accounting for implementation costs in cloud computing arrangements. The adoption of this guidance did not have an impact on our consolidated financial statements.

Comprehensive Income

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

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments other than cash equivalents and marketable securities, which include accounts receivable and accounts payable, approximate fair value based on either their short maturity or current terms for similar instruments.

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;
Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including, but not limited to, variable consideration related to revenue recognition, allowances for doubtful accounts, the market value of, and demand for, inventories, stock-based compensation, provision for income taxes and related balance sheet accounts, accruals, goodwill and other intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Accounts Receivable Allowance

Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends, current economic conditions and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, generally after all collection efforts have been exhausted, that amount is charged against the allowance for doubtful accounts.

Inventory

The reserve for obsolete and slow-moving inventory is reviewed at least quarterly based on an analysis of the inventory, considering the current condition of the asset as well as other known facts and future plans. The reserve required to record inventory at lower of cost or net realizable value is adjusted as conditions change. Product obsolescence may be caused by shelf-life expiration, discontinuance of a product line, replacement products in the marketplace or other competitive situations.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Customer-based intangibles are amortized on either an accelerated or straight-line basis, reflecting the pattern in which the economic benefits are consumed, while all other amortizable intangibles are amortized on a straight-line basis; intangibles are generally amortized over 5 to 25 years. We review the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value and a charge is recorded to operations.

Long-Lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset indicate that the carrying amount of the asset may not be recoverable. In such an event, fair value is determined using discounted cash flows and, if lower than the carrying value, impairment is recognized through a charge to operations.

Equity Compensation Plans

Share options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized. To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct. The model applied by us can handle most of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on our equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Note 5.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income tax ssets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carryforwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

2. CASH AND MARKETABLE SECURITIES

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced losses related to these balances and believes it is not exposed to significant credit risk regarding its cash and cash equivalents. Cash and cash equivalents were $60,947,000 and $66,269,000 at August 31, 2020 and May 31, 2020, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at August 31, 2020. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable security investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable security portfolio.

These securities are classified as available for sale. The primary objective of management's short-term investment activity is to preserve capital for the purpose of funding current operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within other income on the income statement. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of August 31, 2020 and May 31, 2020 are listed below by classification and remaining maturities.

(in thousands)	Maturity	August 31, 2020	May 31, 2020
US Treasuries	0—90 days	$ —	$ —
	91—180 days	2,516	—
	181 days—1 year	—	2,532
	1—2 years	—	—
Commercial Paper & Corporate Bonds	0—90 days	120,055	133,130
	91—180 days	93,239	73,824
	181 days—1 year	63,668	43,231
	1—2 years	10,012	7,839
Certificates of Deposit	0—90 days	4,908	1,003
	91—180 days	1,257	5,184
	181 days—1 year	8,338	6,069
	1—2 years	2,546	4,592
Total Marketable Securities		$306,539	$277,404

The components of marketable securities at August 31, 2020 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	$ 2,502	$ 14	$ —	$ 2,516
Commercial Paper & Corporate Bonds	286,211	820	(57)	286,974
Certificates of Deposit	16,911	138	—	17,049
Total Marketable Securities	$305,624	$ 972	$ (57)	$306,539

The components of marketable securities at May 31, 2020 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	$ 2,502	$ 30	$ —	$ 2,532
Commercial Paper & Corporate Bonds	257,700	347	(23)	258,024
Certificates of Deposit	16,648	200	—	16,848
Total Marketable Securities	$276,850	$ 577	$ (23)	$277,404

3. INVENTORIES

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net realizable value. The components of inventories follow:

(in thousands)	August 31, 2020	May 31, 2020
Raw materials	$ 47,589	$45,058
Work-in-process	6,323	6,887
Finished and purchased goods	43,661	43,108
	$97,573	**$95,053**

4. LEASES

We lease various manufacturing, laboratory, warehousing and distribution facilities, administrative and sales offices, equipment and vehicles under operating leases. We evaluate our contracts to determine if an arrangement is a lease at inception and classify it as a finance or operating lease. Currently, all our leases are classified as operating leases. Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term. Our lease terms may include options to extend when it is reasonably certain that we will exercise that option.

Topic 842 requires the Company to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Right-of-use assets are recorded in other assets on our consolidated balance sheets. Current and non-current lease liabilities are recorded in other accruals within current liabilities and other non-current liabilities, respectively, on our consolidated balance sheets. Costs associated with operating leases are recognized on a straight-line basis within operating expenses over the term of the lease.

We have made certain assumptions and judgments when applying ASC 842, the most significant of which are:

- We elected the package of practical expedients available for transition that allow us to not reassess whether expired or existing contracts contain leases under the new definition of a lease, lease classification for expired or existing leases and whether previously capitalized initial direct costs would qualify for capitalization under ASC 842.
- We did not elect to use hindsight when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset.
- For all asset classes, we elected to not recognize a right-of-use asset and lease liability for short-term leases (i.e. leases with a term of 12 months or less).
- For all asset classes, we elected to not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component.
- The determination of the discount rate used in a lease is our incremental borrowing rate that is based on what we would normally pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments.

Supplemental balance sheet information related to operating leases was as follows:

(in thousands)	August 31, 2020	May 31, 2020
Right of use—assets	$ 1,756	$1,952
Lease liabilities—current	803	1,054
Lease liabilities—non-current	966	913

The weighted average remaining lease term and weighted average discount rate were as follows:

(in thousands)	August 31, 2020	May 31, 2020
Weighted average remaining lease term	2.4 years	2.5 years
Weighted average discount rate	3.2%	3.2%

Operating lease expenses are classified as cost of revenues or operating expenses on the consolidated statements of income. The components of lease expense were as follows:

(in thousands)	August 31, 2020	August 31, 2019
Operating leases	$205	$240
Short term leases	44	48
Total lease expense	$249	$288

Cash paid for amounts included in the measurement of lease liabilities for operating leases included in cash flows from operations on the statement of cash flows were approximately $304,000 and $247,000 for the three months ended August 31, 2020 and 2019, respectively. There were no non-cash additions to right-of-use assets obtained from new operating lease liabilities for either period.

Undiscounted future minimum lease payments as of August 31, 2020 were as follows (in thousands):

Years ending May 31,	Amount
2021 (1)	$ 789
2022	553
2023	292
2024	145
2025	43
2026 and thereafter	—
Total lease payments	1,822
Less: imputed interest	(97)
Total lease liabilities	$1,725

(1) Excluding the three months ended August 31, 2020.

5. REVENUE RECOGNITION

We determine the amount of revenue to be recognized through application of the following steps:

- Identification of the contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies the performance obligations.

Essentially all of Neogen's revenue is generated through contracts with its customers. A performance obligation is a promise in a contract to transfer a product or service to a customer. We generally recognized revenue at a point in time when all of our performance obligations under the terms of a contract are satisfied. Revenue is recognized upon transfer of control of promised products and services in an amount that reflects the consideration we expect to receive in exchange for those products or services. The collectability of consideration on the contract is reasonably assured before revenue is recognized. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred in other accruals on the balance sheet and the revenue is recognized in the period that all recognition criteria have been met.

Certain agreements with customers include discounts or rebates on the sale of products and services applied retrospectively, such as volume rebates achieved by purchasing a specified purchase threshold of goods and services. We account for these discounts as variable consideration and estimate the likelihood of a customer meeting the threshold in order to determine the transaction price using the most predictive approach. We typically use the most-likely-amount method, for incentives that are offered to individual customers, and the expected-value method, for programs that are offered to a broad group of customers. Variable consideration reduces the amount of revenue that is recognized. Rebate obligations related to customer incentive programs are recorded in accrued liabilities; the rebate estimates are adjusted at the end of each applicable measurement period based on information currently available.

The performance obligations in Neogen's contracts are generally satisfied well within one year of contract inception. In such cases, management has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. Management has elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would otherwise have been deferred and amortized is one year or less. We account for shipping and handling for products as a fulfillment activity when goods are shipped. Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses incurred by Neogen are recorded in sales and marketing expense. Revenue is recognized net of any tax collected from customers; the taxes are subsequently remitted to governmental authorities. Our terms and conditions of sale generally do not provide for returns of product or reperformance of service except in the case of quality or warranty issues. These situations are infrequent; due to immateriality of the amount, warranty claims are recorded in the period incurred.

The Company derives revenue from two primary sources—product revenue and service revenue.

Product revenue consists of shipments of:

- Diagnostic test kits, culture media and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation;
- Consumable products marketed to veterinarians, retailers, livestock producers and animal health product distributors; and
- Rodenticides, disinfectants and insecticides to assist in the control of rodents, insects and disease in and around agricultural, food production and other facilities.

Revenues for our products are recognized and invoiced when the product is shipped to the customer.

Service revenue consists primarily of:

- Genomic identification and related interpretive bioinformatic services; and
- Other commercial laboratory services.

Revenues for Neogen's genomics and commercial laboratory services are recognized and invoiced when the applicable laboratory service is performed and the results are conveyed to the customer.

Payment terms for products and services are generally 30 to 60 days.

The following table presents disaggregated revenue by major product and service categories for the three month periods ended August 31, 2020 and 2019:

	Three Months ended August 31,	
(in thousands)	2020	2019
Food Safety		
Natural Toxins, Allergens & Drug Residues	$ 19,015	$ 20,115
Bacterial & General Sanitation	9,931	10,316
Culture Media & Other	11,393	11,279
Rodenticides, Insecticides & Disinfectants	9,608	5,449
Genomics Services	4,238	3,862
	$ 54,185	$ 51,021
Animal Safety		
Life Sciences	$ 1,325	$ 1,723
Veterinary Instruments & Disposables	10,375	11,336
Animal Care & Other	7,658	6,405
Rodenticides, Insecticides & Disinfectants	19,914	16,718
Genomics Services	15,868	14,221
	$ 55,140	$ 50,403
Total Revenues	$109,325	$101,424

6. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended August 31,	
(in thousands, except per share amounts)	2020	2019
Numerator for basic and diluted net income per share:		
Net income attributable to Neogen	$15,860	$14,652
Denominator for basic net income per share:		
Weighted average shares	52,992	52,292
Effect of dilutive stock options	293	392
Denominator for diluted net income per share	53,285	52,684
Net income attributable to Neogen per share:		
Basic	$ 0.30	$ 0.28
Diluted	$ 0.30	$ 0.28

7. SEGMENT INFORMATION AND GEOGRAPHIC DATA

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

Our international operations in the United Kingdom, Mexico, Brazil, China and India originally focused on the Company's food safety products, and each of these units reports through the Food Safety segment. In recent years, these operations have expanded to offer our complete line of products and services, including those usually associated with the Animal Safety segment such as cleaners, disinfectants, rodenticides, insecticides, veterinary instruments and genomics services. These additional products and services are managed and directed by existing management and are reported through the Food Safety segment.

Neogen's operation in Australia originally focused on providing genomics services and sales of animal safety products and reports through the Animal Safety segment. With the acquisition of Cell BioSciences in February 2020, this operation has expanded to offer our complete line of products and services, including those usually associated with the Food Safety segment. These additional products are managed and directed by existing management at Neogen Australasia and report through the Animal Safety segment.

The accounting policies of each of the segments are the same as those described in Note 1.

Segment information follows:

(in thousands)	**Food Safety**	**Animal Safety**	**Corporate and Eliminations (1)**	**Total**
As of and for the three months ended August 31, 2020				
Product revenues to external customers	$ 48,663	$ 39,272	$ —	$ 87,935
Service revenues to external customers	5,522	15,868	—	21,390
Total revenues to external customers	54,185	55,140	—	109,325
Operating income (loss)	7,963	12,165	(1,233)	18,895
Total assets	225,716	228,390	367,486	821,592
As of and for the three months ended August 31, 2019				
Product revenues to external customers	$ 45,877	$ 36,071	$ —	$ 81,948
Service revenues to external customers	5,144	14,332	—	19,476
Total revenues to external customers	51,021	50,403	—	101,424
Operating income (loss)	9,134	8,300	(1,170)	16,264
Total assets	207,725	222,403	291,016	721,144

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

The following table presents the Company's revenue disaggregated by geographic location:

	Three months ended August 31,	
(in thousands)	**2020**	**2019**
Domestic	$ 67,324	$ 63,340
International	42,001	38,084
Total revenue	109,325	101,424

8. EQUITY COMPENSATION PLANS

Incentive and non-qualified options to purchase shares of common stock have been granted to directors, officers and employees of Neogen under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years. A summary of stock option activity during the three months ended August 31, 2020 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2020	2,162	$ 55.96
Granted	—	—
Exercised	(86)	48.39
Forfeited	(7)	57.81
Options outstanding August 31, 2020	2,069	$ 56.27

During the three month periods ended August 31, 2020 and 2019, the Company recorded $1,681,000 and $1,543,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value per share of stock options granted during fiscal year 2020, estimated on the date of grant using the Black-Scholes option pricing model, was $15.56. The fair value of stock options granted was estimated using the following weighted-average assumptions. No options were granted in the first quarter of fiscal year 2021.

	FY 2020
Risk-free interest rate	1.9%
Expected dividend yield	0.0%
Expected stock price volatility	29.4%
Expected option life	3.5 years

The Company offers eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of the 2011 Employee Stock Purchase Plan; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation.

9. BUSINESS AND PRODUCT LINE ACQUISITIONS

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the acquisition method. Goodwill recognized in the acquisitions discussed below relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Argentina. This acquisition gives Neogen a direct sales presence in Argentina. Consideration for the purchase was $3,776,000 in net cash, with $3,237,000 paid at closing and $540,000 payable to the former owner on January 1, 2022, and up to $979,000 of contingent consideration, payable in one year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $603,000, inventory of $446,000, machinery and equipment of $36,000, other current assets of $221,000, accounts payable of $383,000, other current liabilities of $312,000, contingent consideration accrual of $640,000, non-current deferred tax liabilities of $441,000, intangible assets of $1,471,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Buenos Aires, Argentina, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Uruguay. This acquisition gives Neogen a direct sales presence in Uruguay. Consideration for the purchase was $1,488,000 in net cash, with $1,278,000 paid at closing and $210,000 payable to the former owner on January 1, 2022, and up to $241,000 in contingent consideration, payable in one year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $280,000, inventory of $174,000, machinery and equipment of $16,000, other current assets of $68,000, accounts payable of $204,000, other current liabilities of $11,000, contingent consideration accrual of $159,000, non-current deferred tax liabilities of $99,000, intangible assets of $398,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Montevideo, Uruguay, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 9, 2020, the Company acquired all of the stock of Diessechem Srl, a distributor of food and feed diagnostics for the past 27 years, located in Italy. This acquisition gives Neogen a direct sales presence in Italy. Consideration for the purchase was $3,455,000 in net cash. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $780,000, inventory of $5,000, other current assets of $160,000, accounts payable of $140,000, other current liabilities of $305,000, non-current deferred tax liabilities of $294,000, intangible assets of $1,225,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Milan, Italy, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On January 31, 2020, the Company acquired all of the stock of Abtek Biologicals Limited, a manufacturer and supplier of culture media supplements and microbiology technologies. This acquisition enhances the Company's culture media product line offering for the worldwide industrial microbiology markets. Consideration for the purchase was $1,401,000 in net cash, with $1,282,000 paid at closing and $119,000 payable to the former owner on January 31, 2021. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $135,000, inventory of $207,000, machinery and equipment of $105,000, prepayments of $6,000, accounts payable of $118,000, other current liabilities of $34,000, non-current deferred tax liabilities of $92,000, intangible assets of $484,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This manufacturing operation continues to operate from its current location in Liverpool, England, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On February 28, 2020, the Company acquired the assets of Cell BioSciences, an Australian distributor of food safety and industrial microbiology products. This acquisition gave Neogen a direct sales presence across Australasia for its entire product portfolio. Consideration for the purchase was $3,768,000 in cash, with $3,596,000 paid at closing and $172,000 payable in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $420,000, unearned revenue liability of $13,000, intangible assets of $1,338,000 (with an estimated life of 3 to 10 years) and the remainder to goodwill (non-deductible for tax purposes). The business operates in Gatton, Australia, reporting within the Australian operations in the Animal Safety segment.

On March 26, 2020, the Company acquired the assets of Chile-based Magiar Chilena, a distributor of food, animal and plant diagnostics, including Neogen products. This acquisition gives Neogen a direct sales presence in Chile. Consideration for the purchase was $400,000 in cash, with $350,000 paid at closing and $50,000 payable to the former owner on March 26, 2021. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $164,000, machinery and equipment of $53,000, and intangible assets of $183,000 (with an estimated life of 5-10 years). The business is operated from its current location in Santiago, Chile, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On July 31, 2020, the Company acquired the U.S. (including territories) rights to Elanco's StandGuard Pour-on for horn fly and lice control in beef cattle, and related assets. This product line fits in well with Neogen's existing agricultural insecticide portfolio and organizational capabilities. Consideration for the purchase was $2,351,000 in cash, all paid at closing. The preliminary purchase price allocation, based upon the fair value of these assets determined using the income approach, included inventory of $51,000 and intangible assets of $2,300,000 (with an estimated life of 15 years). This product line is currently being toll manufactured for the Company but is eventually expected to be manufactured at Neogen's operation in Iowa, the sales are reported within the Animal Safety segment.

For each acquisition listed above, the revenues and net income were not considered material and were therefore not disclosed.

10. LONG TERM DEBT

We have a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which expires on September 30, 2021. There were no advances against the line of credit during fiscal 2020 and there have been none thus far in fiscal 2021; there was no balance outstanding at August 31, 2020. Interest on any borrowings remained at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.20% at August 31, 2020). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at August 31, 2020.

11. COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company currently utilizes a pump and treat remediation strategy, which includes semi-annual monitoring and reporting, consulting, and maintenance of monitoring wells. Neogen expenses these annual costs of remediation, which have ranged from $38,000 to $131,000 per year over the past five years. The Company's estimated liability for these costs was $916,000 at both August 31, 2020 and May 31, 2020, measured on an undiscounted basis over an estimated period of 15 years; $100,000 of the liability is recorded within current liabilities and the remainder is recorded within other non-current liabilities on the consolidated balance sheets. In fiscal 2019, the Company performed an updated Corrective Measures Study (CMS) on the site, per a request from the Wisconsin Department of Natural Resources (WDNR), and is in discussion with the WDNR regarding potential alternative remediation strategies going forward. The Company believes that the current pump and treat strategy is appropriate for the site. At this time, the outcome of the review in terms of approach and future costs is unknown, but a change in the current remediation strategy, depending on the alternative selected, could require an increase in the recorded liability, with an offsetting charge to operations in the period recorded.

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

PART I – FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Safe Harbor and Forward-Looking Statements

Forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, are made throughout this Quarterly Report on Form 10-Q. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, effects of the ongoing COVID-19 pandemic on our business, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation's results to differ materially from those indicated by such forward-looking statements, including those detailed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Executive Overview

- Consolidated revenues were $109.3 million in the first quarter of fiscal 2021, an increase of 8% compared to $101.4 million in the first quarter of fiscal 2020. Organic sales increased 6%.
- Food Safety segment sales were $54.2 million in the first quarter of the current fiscal year, an increase of 6% compared to $51.0 million in the same period of the prior year. Organic sales in this segment rose 4% for the comparative period, with revenues from the acquisitions of Neogen Italia (January 2020), Neogen Argentina (January 2020), Neogen Uruguay (January 2020), Abtek (January 2020) and Neogen Chile (March 2020) providing the remainder of the increase.
- Animal Safety segment sales were $55.1 million in the first quarter, an increase of 9% compared to prior year first quarter sales of $50.4 million. Organic sales in this segment increased 8%, with the acquisitions of Cell BioSciences (February 2020) and the StandGuard product line from Elanco (August 2020) providing the remainder of the increase.
- International sales in the first quarter of fiscal 2021 were 38.4% of total sales compared to 37.5% of total sales in the first quarter of fiscal 2020.
- The effective tax rate in the first quarter of fiscal 2021 was 19.9% compared to 17.0% in the prior year first quarter. The increase in the effective tax rate for this quarter was due primarily to lower tax benefits from the exercise of stock options and reduced benefit from foreign derived income, each compared to the same period a year ago.
- Net income for the quarter ended August 31, 2020 was $15.9 million, or $0.30 per diluted share, an increase of 8% compared to $14.7 million, or $0.28 per share, for the same period in the prior year.
- Cash generated from operating activities in the first quarter of fiscal 2021 was $25.1 million, compared to $23.7 million in the first quarter of fiscal 2020.

Neogen's results reflect a 10% increase in international sales in the first quarter of fiscal 2021 compared to the same period in the prior year. Revenue changes, expressed in percentages, in the first quarter of fiscal 2021 compared to the same quarter in the prior year are as follows for each of our international locations:

	Revenue % Inc (Dec) USD	**Revenue % Inc (Dec) Local Currency**
U.K. Operations	21%	17%
Brazil Operations	1%	38%
Neogen Latinoamerica	(2)%	13%
Neogen China	105%	106%
Neogen India	10%	18%
Neogen Canada	(11)%	(10)%
Neogen Australasia	67%	63%

Currency translations reduced comparative revenues by approximately $2.1 million in the first quarter of fiscal 2021 compared to the same quarter a year ago, primarily due to increased strength of the U.S. dollar relative to the Brazilian real and Mexican peso. Combined revenues at our U.K. operations increased 21% resulting from a large shipment of hand sanitizers to the U.K. government's health organization and strong cleaner & disinfectant sales to China, Africa and the Middle East. Histamine test kits sales also contributed to the growth, due to increased business from tuna producers.

At our Brazilian operations, fiscal 2021 first quarter sales increased 38% in local currency and included a large non-recurring insecticide sale to a government health organization. Additionally, sales were strong across our entire portfolio of products, including rodenticides, genomics services, dairy drug residue test kits and aflatoxin test kits, however negative currency translations lowered the overall growth to 1%. At Neogen Latinoamerica, the growth in local currency in the first quarter was led by sales of cleaners, disinfectants and sanitizers.

Service revenue, which consists primarily of genomics services to animal protein and companion animal markets, was $21.4 million in the first quarter of fiscal 2021, an increase of 10% over prior year first quarter revenues of $19.5 million. The growth was led by increases of genomics revenues to the companion animal and Australian sheep markets, somewhat offset by lower sales of services to domestic commercial beef and dairy producers, due to delays in sample receipts caused by the Covid-19 pandemic and poor economic conditions in the commercial dairy markets.

Revenues

	Three Months ended August 31,			
(in thousands)	2020	2019	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 19,015	$ 20,115	$ (1,100)	(5)%
Bacterial & General Sanitation	9,931	10,316	(385)	(4)%
Culture Media & Other	11,393	11,279	114	1%
Rodenticides, Insecticides & Disinfectants	9,608	5,449	4,159	76%
Genomics Services	4,238	3,862	376	10%
	$ 54,185	$ 51,021	$ 3,164	6%
Animal Safety				
Life Sciences	$ 1,325	$ 1,723	$ (398)	(23)%
Veterinary Instruments & Disposables	10,375	11,336	(961)	(8)%
Animal Care & Other	7,658	6,405	1,253	20%
Rodenticides, Insecticides & Disinfectants	19,914	16,718	3,196	19%
Genomics Services	15,868	14,221	1,647	12%
	$ 55,140	$ 50,403	$ 4,737	9%
Total Revenues	$109,325	$101,424	$ 7,901	8%

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category decreased 5% in the first quarter of fiscal 2021 due primarily to a 34% decrease in drug residue test kits, the result of lower demand for these products in our European dairy markets. In January 2020, we ended an exclusive relationship with our European distributor and have begun directly marketing these products to end customers. Sales of our natural toxin test kits rose 1%, as higher sales of ochratoxin, fumonisin and histamine test kits were almost entirely offset by lower aflatoxin test kit sales in U.S. dollars, the result of negative currency translations on increased volumes of aflatoxin test kits in Brazil; in local currency, aflatoxin test kits sales in Brazil rose 9%. Allergen kit sales decreased 3% compared to last year's first quarter, primarily resulting from lower demand from many customers who were temporarily closed or operating at lower capacity due to the COVID-19 pandemic, and from competitive pressure.

Bacterial & General Sanitation – Revenues in this category decreased 4% in the first quarter, due to a 7% decrease in sales of our environmental sanitation product line and a 19% decrease in sales of pathogen test kits. Partially offsetting the decrease was an 85% increase in sales of our next generation Soleris NG system, used to detect spoilage organisms such as yeast and molds in processed foods; this system was introduced in late July, and the initial market response has been positive. The Company's innovative *Listeria Right Now* system also continues to gain market acceptance, recording a 9% increase in sales over the prior year period.

Culture Media & Other – Sales in this category rose 1% in the first quarter of fiscal 2021 compared to the same period in the prior year. This category includes sales of veterinary personal protective equipment, primarily gloves, as well as hand sanitizers and sanitizing wipes; these products experienced increased demand in new markets due to shortages caused by the COVID-19 pandemic. Sales of Neogen Culture Media were down 10%, due primarily to continued weakness in end demand at a number of our large U.S. customers.

Rodenticides, Insecticides & Disinfectants – Sales of products in this category increased 76% in the first quarter of fiscal 2021, compared to last year's first quarter. The increase was due primarily to a 73% increase in sales of hand and skin sanitizing products at our U.K. based Quat-Chem operation and a large non-recurring insecticide order recorded at our Brazil operation, to a government health organization. Additionally, sales of cleaners and disinfectants into China more than doubled, primarily due to increased demand resulting from the African swine fever outbreak in that country and the COVID-19 pandemic.

Genomics Services – Sales of genomics services sold through our Food Safety operations rose 10% in the first quarter of fiscal 2021, compared to the same period last year, as genomics services in China more than doubled, due to increased testing in the pork industry, gains in beef cattle testing and project work in aquaculture.

Animal Safety

Life Sciences – Sales in this category decreased 23% in the first quarter, due primarily to lower sales of drug test kits to commercial laboratories, as they processed fewer samples due to slowdowns from the COVID-19 pandemic.

Veterinary Instruments & Disposables – Revenues in this category decreased 8% in the first quarter of fiscal 2021, due to lower sales of needles, syringes, marking products and hoof and leg care products to our larger animal health distributors, the result of lower end market demand.

Animal Care & Other – Sales of these products increased 20% in the first quarter compared to the same period a year ago. Within the animal care product lines, sales of our vitamin injectables, equine supplements and joint pain products increased 31% during the period. Partially offsetting these increases, sales of our dairy supply products decreased 25% due to termination of an agreement in which we distributed these types of products for a large manufacturer of dairy equipment, effective June 2020.

Rodenticides, Insecticides & Disinfectants – Sales in this category rose 19% in the first quarter of fiscal 2021 compared to the same period in the prior year, driven by a 47% increase in rodenticide sales, as rodent pressure in certain areas of the U.S. increased significantly. Insecticide sales rose 6%, due in part to our acquisition of the StandGuard product line from Elanco on July 31, 2020. Cleaners and disinfectants sales rose 1% as growth in hand sanitizer products in the U.S. was offset by lower sales of water treatment products and the transfer of $325,000 of disinfectant products.

Genomics Services – Sales in this category increased 12% in the first three months, led by increased sales to the companion animal market in the U.S., and to a lesser extent, gains in sheep and beef testing in Australia and the recent launch of a new high density chip for whiteleg shrimp. Partially offsetting these gains was a 12% decrease in sales to domestic commercial beef and dairy cattle producers, due to delays in sample receipts caused by the Covid-19 pandemic and poor economic conditions in the commercial dairy markets, and reduced sales to a large poultry customer due to their move to one of our lower density, lower cost, chips.

Gross Margin

Gross margin was 46.0% in the first quarter of fiscal 2021 compared to 47.5% in the same quarter a year ago, due in large part to a shift in product mix within the Food Safety segment resulting from significantly increased sales of products with lower than average gross margins, such as cleaners and disinfectants from our European and Chinese operations and insecticides from our Brazilian operation. Additionally, the impact of the stronger dollar relative to the Brazilian real and Mexican peso during the period, and increased duties and freight charges adversely impacted Food Safety gross margins. Animal Safety gross margins improved by 290 basis points, primarily the result of a 47% increase in rodenticide sales, a higher gross margin product, a 31% increase in sales of disinfectant products such as hand sanitizers and improved efficiencies in our Australian operations from higher throughput resulting from the acquisition of Cell Biosciences in February of 2020.

Operating Expenses

Operating expenses were $31.4 million in the first quarter of fiscal 2021, compared to $31.9 million in the first quarter of fiscal 2020, a decrease of $500,000, or 2%. Sales and marketing expenses were $16.5 million, a decline of $1.0 million, or 6%, compared to $17.5 million in last year's first quarter, as the COVID-19 pandemic restricted travel worldwide, lowering expenses by $900,000. Additionally, trade show expenses were $353,000 lower than the first quarter of fiscal 2020, as all of the tradeshows we participate in were cancelled or moved to virtual formats due to the pandemic. Partially offsetting these lower expenses was a $1.0 million increase in compensation costs, the result of increased headcount and higher commissions and quarterly bonuses, reflective of the revenue increases.

General and administrative expenses were $11.0 million, an increase of $314,000, or 2.9%, compared to $10.7 million in last year's first quarter, primarily due to a $372,000 increase in compensation expense, the result of higher headcount and salaries, increased legal and professional fees, depreciation related to investments in information technology, and higher stock-based compensation expense. Research and development expense was $3.9 million in the first quarter of fiscal 2021, an increase of $191,000 compared to the same period in the prior year, with the increase due primarily to third party services and approval costs related to new product development. The Company launched a next generation system to detect spoilage organisms in processed foods, the Soleris NG, in the first quarter of fiscal 2021.

Operating Income

Operating income was $18.9 million in the first quarter of fiscal 2021, compared to $16.3 million in the same period of the prior year. Expressed as a percentage of revenue, operating income was 17.3% compared to 16.0% in last year's first quarter. The improvement is the result of the increase in revenues and lower operating expenses for the quarter.

Other Income

(dollars in thousands)	Three Months ended August 31, 2020	2019
Interest income (net of expense)	$ 722	$ 1,510
Foreign currency transactions	175	(117)
Royalty income	—	1
Other	18	(7)
Total Other Income	$ 915	$ 1,387

The reduction in interest income in the first quarter of fiscal 2021 compared to the prior year is the result of lower yields on our cash and marketable securities balances, as interest rates dropped significantly in the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020. Other income resulting from foreign currency transactions is the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate; during the first quarter of 2021, the pound and the euro rose relative to the dollar, while the peso and the real declined. In the first quarter of fiscal 2020, all of the currencies in those countries depreciated against the dollar.

Income Tax Expense

Income tax expense for the first quarter of fiscal 2021 was $3.95 million, an effective tax rate of 19.9%, compared to prior year first quarter income tax expense of $3.0 million, an effective tax rate of 17.0%. For each quarter, the primary difference between the statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; this benefit was $421,000 in the first quarter of fiscal 2021 compared to $769,000 in the first quarter of the prior year. The benefit was lower due to the decreased volume of option exercises during the comparative periods, and a reduction in benefit realized, on average, for each transaction. Additionally, we recorded a lower tax benefit in the first quarter of fiscal 2021 relating to foreign derived income, compared to the prior year first quarter.

Net Income

Net income was $15.9 million in the first quarter of fiscal 2021, an increase of 8.2% compared to $14.6 million earned in the first quarter of fiscal 2020. The increased earnings were the result of higher sales and gross margins, and decreased operating expenses, which offset the $950,0000 increase in income taxes.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $367.5 million at August 31, 2020, compared to $343.7 million at May 31, 2020. Approximately $25.1 million was generated from operations during the first three months of fiscal 2021. Net cash proceeds of $5.1 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first quarter. We spent $4.2 million for property, equipment and other non-current assets in the first three months of fiscal 2021.

Net accounts receivable balances were $77.7 million at August 31, 2020, a decline of $7.0 million, compared to $84.7 million at May 31, 2020. Days sales outstanding, a measurement of the time it takes to collect receivables, were 61 days at August 31, 2020, compared to 68 days at May 31, 2020 and 64 days at August 31, 2019. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, we have not experienced an appreciable increase in bad debt write offs. We did provide an additional $100,000 at May 31, 2020 in our allowance for bad debts to account for potential write offs related to COVID-19, and will continue to actively manage our customer accounts and adjust the allowance account as circumstances change.

Net inventory balances were $97.6 million at August 31, 2020, an increase of $2.5 million, or 3%, compared to May 31, 2020 balances of $95.1 million. We increased inventory levels in fiscal 2020 to ensure we have adequate supplies of critical raw and finished products in the event our supply chain is adversely impacted by the COVID-19 pandemic and Brexit.

Inflation and changing prices are not expected to have a material effect on operations, as management believes it will continue to be successful in offsetting increased input costs with price increases and/or cost efficiencies.

Management believes that our existing cash and marketable securities balances at August 31, 2020, along with available borrowings under our credit facility and cash expected to be generated from future operations, will be sufficient to fund activities for the foreseeable future. However, existing cash and borrowing capacity may not be sufficient to meet our cash requirements to commercialize products currently under development or our plans to acquire other organizations, technologies or products that fit within our mission statement. Accordingly, we may choose to issue equity securities or enter into other financing arrangements for a portion of our future financing needs.

PART I – FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have interest rate and foreign exchange rate risk exposure but no long-term fixed rate investments or borrowings. Our primary interest rate risk is due to potential fluctuations of interest rates for short-term investments.

Foreign exchange risk exposure arises because we market and sell our products throughout the world. Revenues in certain foreign countries as well as certain expenses related to those revenues are transacted in currencies other than the U.S. dollar. Our operating results are exposed to changes in exchange rates between the U.S. dollar and the British pound sterling, euro, Mexican peso, Brazilian real, Chinese yuan, Australian dollar and to a lesser extent, the Indian rupee, Canadian dollar, Argentine peso, Uruguayan peso and Chilean peso; there is also exposure to a change in exchange rate between the British pound sterling and the euro. When the U.S. dollar weakens against foreign currencies, the dollar value of revenues denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. Additionally, previously invoiced amounts can be positively or negatively affected by changes in exchange rates in the course of collection.

Neogen has assets, liabilities and operations outside of the U.S., located in Scotland, England, Italy, Brazil, Mexico, Argentina, Uruguay, Chile, China, India, Canada and Australia where the functional currency is the British pound sterling, euro, Brazilian real, Mexican peso, Argentine peso, Uruguayan peso, Chilean peso, Chinese yuan, Indian rupee, Canadian dollar and Australian dollar, respectively. Our investments in foreign subsidiaries are considered to be long-term. As discussed in ITEM 1A. RISK FACTORS of the Form 10-K annual filing, our financial condition and results of operations could be adversely affected by currency fluctuations.

PART I – FINANCIAL INFORMATION

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2020 was carried out under the supervision and with the participation of the Company's management, including the President & Chief Executive Officer and the Vice President & Chief Financial Officer ("the Certifying Officers"). Based on the evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Controls over Financial Reporting

No changes in our control over financial reporting were identified as having occurred during the quarter ended August 31, 2020 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal and other proceedings in the normal course of business. In the opinion of management, the outcomes of these matters are not expected to have a material effect on the Company’s future results of operations or financial position.

Item 6. Exhibits

(a) Exhibit Index

10	Amended and Restated Credit Agreement dated as of November 30, 2018 between Registrant and JP Morgan Chase N.A. (incorporated by reference to Exhibit 10.A of the registrant’s Form 8-K filed on December 6, 2018).
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

NEOGEN CORPORATION
(Registrant)

Dated: September 30, 2020

/s/ John E. Adent
John E. Adent
President & Chief Executive Officer
(Principal Executive Officer)

Dated: September 30, 2020

/s/ Steven J. Quinlan
Steven J. Quinlan
Vice President & Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 31.1
13a. – CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
NEOGEN CORPORATION AND SUBSIDIARIES

CEO CERTIFICATION

I, John E. Adent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended August 31, 2020 of Neogen Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; and

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 30, 2020

/s/ John E. Adent
John E. Adent
President & Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2
13a. – CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
NEOGEN CORPORATION AND SUBSIDIARIES

CFO CERTIFICATION

I, Steven J. Quinlan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended August 31, 2020 of Neogen Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; and

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 30, 2020

/s/ Steven J. Quinlan
Steven J. Quinlan
Vice President & Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32
18 U.S.C. SECTION 1350 CERTIFICATION
NEOGEN CORPORATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Neogen Corporation (the “Company”) for the period ended August 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John E. Adent, as Chief Executive Officer of the Company and I, Steven J. Quinlan, as Chief Financial Officer, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) This Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) Information contained in this Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: September 30, 2020

/s/ John E. Adent
John E. Adent
President & Chief Executive Officer
(Principal Executive Officer)

/s/ Steven J. Quinlan
Steven J. Quinlan
Vice President & Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.