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, 2019.

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 **(State or other jurisdiction of incorporation or organization)**	**38-2367843** **(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 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 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, or a non-accelerated filer (see definition of “accelerated filer and large accelerated filer” 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 Exchange Act): YES ☐ NO ☒

As of August 31, 2019 there were 52,422,942 shares of Common Stock outstanding.

NEOGEN CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements

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

Assets	August 31, 2019 Unaudited	May 31, 2019 Audited
Current Assets		
Cash and cash equivalents	$ 56,289	$ 41,688
Marketable securities	234,727	225,836
Accounts receivable, less allowance of $1,700 and $1,700 at August 31, 2019 and May 31, 2019, respectively	79,112	82,582
Inventories	87,682	85,992
Prepaid expenses and other current assets	15,738	13,431
Total Current Assets	473,548	449,529
Net Property and Equipment	75,154	74,847
Other Assets		
Goodwill	102,883	103,619
Other non-amortizable intangible assets	15,397	15,649
Amortizable intangible and other assets, net of accumulated amortization of $40,127 and $40,835 at August 31, 2019 and May 31, 2019, respectively	54,162	52,096
Total Assets	$ 721,144	$ 695,740
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 18,345	$ 19,063
Accrued compensation	4,796	7,085
Income taxes	4,142	601
Other accruals	13,144	11,502
Total Current Liabilities	40,427	38,251
Deferred Income Taxes	15,501	15,618
Other Non-Current Liabilities	4,910	3,972
Total Liabilities	60,838	57,841
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, 52,422,942 and 52,216,589 shares issued and outstanding at August 31, 2019 and May 31, 2019, respectively	8,387	8,355
Additional paid-in capital	232,156	221,937
Accumulated other comprehensive loss	(14,136)	(11,640)
Retained earnings	433,899	419,247
Total Stockholders' Equity	660,306	637,899
Total Liabilities and Stockholders' Equity	$ 721,144	$ 695,740

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,	
	2019	2018
Revenues		
Product revenues	$ 81,948	$ 82,960
Service revenues	19,476	16,666
Total Revenues	101,424	99,626
Cost of Revenues		
Cost of product revenues	42,031	42,950
Cost of service revenues	11,199	9,947
Total Cost of Revenues	53,230	52,897
Gross Margin	48,194	46,729
Operating Expenses		
Sales and marketing	17,543	17,233
General and administrative	10,699	10,198
Research and development	3,688	2,819
Total Operating Expenses	31,930	30,250
Operating Income	16,264	16,479
Other Income (Expense)		
Interest income	1,510	927
Other expense	(122)	(269)
Total Other Income	1,388	658
Income Before Taxes	17,652	17,137
Provision for Income Taxes	3,000	1,900
Net Income	$ 14,652	$ 15,237
Net Income Per Share		
Basic	$ 0.28	$ 0.29
Diluted	$ 0.28	$ 0.29

See notes to interim consolidated financial statements.

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

	Three Months Ended August 31,	
	2019	**2018**
Net income	$14,652	$15,237
Other comprehensive loss, net of tax: currency translation adjustments	(3,058)	(2,778)
Other comprehensive income, net of tax: unrealized gain on marketable securities	562	—
Total comprehensive income	$12,156	$12,459

See notes to interim consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
Balance at May 31, 2019	52,217	$8,355	$221,937	$ (11,640)	$419,247	$637,899
Issuance of shares under share-based compensation plan	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 at August 31, 2019	52,423	$8,387	$232,156	$ (14,136)	$433,899	$660,306

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
Balance at May 31, 2018	51,736	$8,278	$202,572	$ (9,746)	$359,071	$560,175
Issuance of shares under share-based compensation plan	251	40	8,433			8,473
Issuance of shares under employee stock purchase plan	8	2	517			519
Net income for the three months ended August 31, 2018					15,237	15,237
Other comprehensive loss for the three months ended August 31, 2018				(2,778)		(2,778)
Balance at August 31, 2018	51,995	$8,320	$211,522	$ (12,524)	$374,308	$581,626

See notes to interim consolidated financial statements.

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

	Three Months Ended August 31, 2019	Three Months Ended August 31, 2018
Cash Flows From Operating Activities		
Net Income	$ 14,652	$ 15,237
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,435	4,271
Share-based compensation	1,543	1,431
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	3,390	755
Inventories	(2,132)	(2,940)
Prepaid expenses and other current assets	(1,929)	(3,236)
Accounts payable, accruals and other changes	3,760	564
Net Cash From Operating Activities	23,719	16,082
Cash Flows For Investing Activities		
Purchases of property, equipment and other assets	(6,469)	(1,918)
Proceeds from the sale of marketable securities	94,540	73,096
Purchases of marketable securities	(103,432)	(74,549)
Business acquisitions, net of cash acquired	—	(4,203)
Net Cash For Investing Activities	(15,361)	(7,574)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	8,708	8,992
Net Cash From Financing Activities	8,708	8,992
Effect of Exchange Rates on Cash	(2,465)	(3,349)
Net Increase In Cash and Cash Equivalents	14,601	14,151
Cash and Cash Equivalents, Beginning of Period	41,688	83,074
Cash and Cash Equivalents, End of Period	$ 56,289	$ 97,225

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, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2020. 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, 2019.

Recently Adopted Accounting Standards

Leases

On June 1, 2019, the Company adopted ASU No. 2016-02— Leases. Refer to Leases section of Note 1 for further information.

Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments Credit Losses

In June 2016, the FASB issued ASU No. 2016-13—Measurement of Credit Losses on Financial Instruments, which changes how companies measure 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 companies 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. ASU 2016-13 is effective for fiscal periods beginning after December 15, 2019 and must be adopted as a cumulative effect adjustment to retained earnings; early adoption is permitted. The Company does not believe adoption of this guidance will have an impact on its consolidated financial statements.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-3, 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. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company does not believe adoption of this guidance will have an impact on its consolidated financial statements.

Cloud Computing Implementation Cost

In August 2018, the FASB issued 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. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company does not believe adoption of this guidance will have an impact on its 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 or losses on 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.

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. The carrying value of these assets approximates fair value due to the short maturity of these instruments and meets the Level 1 criteria.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at August 31, 2019, consisting of short-term domestic certificates of deposit, and commercial paper and U.S. treasuries rated at least A-1/P-1 (short-term) and A/A2 (long-term) with maturities between 91 days and two years. These securities are classified as available for sale. The primary objective of the Company's investment activity is to preserve capital for the purpose of funding operations, capital expenditures and business acquisitions; 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 consolidated statements of income.

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.

There have been no significant changes to the critical accounting policies and estimates disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

There were no significant changes to the contractual obligations or contingent liabilities and commitments disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019.

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 and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, 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 by performing a quantitative assessment. 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 assets 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.

Leases

In February 2016, the FASB issued ASU No. 2016-02—Leases, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should 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. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessor have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018; early adoption is permitted. We adopted this ASU on June 1, 2019; the impact on our consolidated financial statements was immaterial.

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.

Costs associated with operating leases are recognized on a straight-line basis within operating expenses over the term of the lease. With the adoption of ASC 842, on June 1, 2019 we recognized all leases with terms greater than 12 months in duration on our consolidated balance sheets as right-of-use assets and lease liabilities of approximately $2.0 million as of June 1, 2019. We adopted the standard using the prospective approach and did not retrospectively apply to prior periods. 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.

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.
- 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:

	August 31, 2019
	(in thousands)
Right of use - assets	$ 1,726
Lease liabilities - current	755
Lease liabilities - non-current	982

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

	August 31, 2019
Weighted average remaining lease term	2.1 years
Weighted average discount rate	3.5%

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:

	Three Months Ended August 31, 2019
	(in thousands)
Operating leases	$ 240
Short term leases	48
Total lease expense	$ 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 $247,000 for the three months ended August 31, 2019. There were no non-cash additions to right-of-use assets obtained from new operating lease liabilities for the three months ended August 31, 2019.

In accordance with the new leases standard, discounted and undiscounted lease payments as of August 31, 2019 were as follows (in thousands):

Years ending May 31,	
2020 (1)	$ 757
2021	730
2022	230
2023	61
2024	3
2025 and thereafter	—
Total lease payments	1,781
Less: imputed interest	44
Total lease liabilities	$ 1,737

(1) Excluding the three months ended August 31, 2019

Prior to our adoption of the new leases standard, future minimum lease payments as of May 31, 2019, which were undiscounted, were as follows (in thousands):

Years ending May 31,	
2020	$ 1,169
2021	818
2022	260
2023	73
2024	—
2025 and thereafter	—
Total lease payments	$ 2,320

Revenue Recognition

The Company determines 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 our revenue is generated through contracts with our customers. A performance obligation is a promise in a contract to transfer a product or service to a customer. We generally recognize revenue at a point in time when all 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 the Company expects 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. In certain situations, we provide rebates, marketing support, credits or incentives to selected customers, which are accounted for as variable consideration when estimating the amount of revenue to recognize on a contract. Variable consideration reduces the amount of revenue that is recognized. These variable consideration estimates are updated at the end of each reporting period based on information currently available.

The performance obligations in our contracts are generally satisfied well within one year of the contract inception. In such cases, we have elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. We have 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. The Company accounts for shipping and handling for products as a fulfillment activity when goods are shipped. Revenue is recognized net of any tax collected from customers; the taxes are subsequently remitted to governmental authorities. The Company’s 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.

We derive revenue from two primary sources—product revenue and service revenue.

Product revenue consists of shipments of:

- Diagnostic test kits, dehydrated 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 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 our 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, 2019 and 2018:

	Three Months ended August 31, 2019	2018
	(in thousands)	
Food Safety		
Natural Toxins, Allergens & Drug Residues	$ 20,115	$ 18,838
Bacterial & General Sanitation	10,316	10,467
Dehydrated Culture Media & Other	11,279	12,217
Rodenticides, Insecticides & Disinfectants	5,449	6,625
Genomics Services	3,862	4,036
	$ 51,021	$ 52,183
Animal Safety		
Life Sciences	$ 1,723	$ 2,080
Veterinary Instruments & Disposables	11,336	10,404
Animal Care & Other	6,405	6,398
Rodenticides, Insecticides & Disinfectants	16,718	17,146
Genomics Services	14,221	11,415
	$ 50,403	$ 47,443
Total Revenues	$ 101,424	$ 99,626

2. 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:

	August 31, 2019	May 31, 2019
	(in thousands)	
Raw materials	$ 42,964	$ 41,594
Work-in-process	5,901	5,581
Finished and purchased goods	38,817	38,817
	$ 87,682	$ 85,992

3. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended August 31,	
	2019	2018
	(in thousands, except per share amounts)	
Numerator for basic and diluted net income per share:		
Net income	$ 14,652	$ 15,237
Denominator for basic net income per share:		
Weighted average shares	52,292	51,806
Effect of dilutive stock options	392	974
Denominator for diluted net income per share	52,684	52,780
Net income per share:		
Basic	$ 0.28	$ 0.29
Diluted	$ 0.28	$ 0.29

4. 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, dehydrated 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.

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

Segment information follows:

	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
		(in thousands)		
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
As of and for the three months ended August 31, 2018				
Product revenues to external customers	$ 46,933	$ 36,027	$ —	$ 82,960
Service revenues to external customers	5,250	11,416	—	16,666
Total revenues to external customers	52,183	47,443	—	99,626
Operating income (loss)	10,873	6,706	(1,100)	16,479
Total assets	201,727	212,786	226,413	640,926

(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, 2019	Three months ended August 31, 2018
	(in thousands)	
Revenues by Geographic Location		
Domestic	$ 63,340	$ 59,846
International	38,084	39,780
Total revenue	101,424	99,626

5. EQUITY COMPENSATION PLANS

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of the Company under the terms of our 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, 2019 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2019	2,385	$ 49.37
Granted	—	—
Exercised	(196)	41.51
Forfeited	(6)	62.70
Options outstanding August 31, 2019	2,183	$ 50.04

During the three month periods ended August 31, 2019 and 2018, the Company recorded $1,543,000 and $1,431,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value per share of stock options granted during fiscal year 2019, estimated on the date of grant using the Black-Scholes option pricing model, was $14.91. 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 2020.

	FY 2019
Risk-free interest rate	2.6%
Expected dividend yield	0.0%
Expected stock price volatility	27.0%
Expected option life	3.5 years

The Company has an employee stock purchase plan that provides for employee stock purchases at a 5% discount to market price. The discount is recorded in administrative expense as of the date of purchase.

6. 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 August 1, 2018, the Company acquired the stock of Clarus Labs, Inc., a manufacturer of water testing products. Neogen has distributed Clarus' Colitag water test to the food and beverage industries since 2004 and this acquisition gives the Company access to sell this product to new markets. Consideration for the purchase was $4,204,000 in cash and $1,256,000 of contingent consideration, due semiannually for the first five years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $32,000, machinery and equipment of $120,000, accounts payable of $53,000, contingent consideration accrual of $1,256,000, non-current deferred tax liability of $544,000, non-amortizable intangible assets of $878,000, intangible assets of $1,487,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. Since February 2019, $180,000 has been paid to the former owners as contingent consideration from the accrual. Manufacturing of these products was moved to the Company's Lansing, Michigan location in October 2018, reporting within the Food Safety segment.

On September 4, 2018, the Company acquired the assets of Livestock Genetic Services, LLC, a Virginia-based company that specialized in genetic evaluations and data management for cattle breeding organizations. Livestock Genetic Services had been a long-time strategic partner of Neogen and the acquisition enhanced the Company's in-house genetic evaluation capabilities. Consideration for the purchase was $1,100,000 in cash, with $700,000 paid at closing and $400,000 payable to the former owner on September 1, 2019, and up to $585,000 of contingent consideration, payable over the next three years. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included office equipment of $15,000, contingent consideration accrual of $385,000, intangible assets of $942,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible to tax purposes). These values are Level 3 fair value measurements. In September 2019, the former owner was paid the second installment of $400,000 and was also paid $88,000 in contingent consideration based on the achievement of sales targets in the first year. Services provided by this operation are now performed at the Company's Lincoln, Nebraska location, reporting within the Animal Safety segment.

On January 1, 2019, the Company acquired the assets of Edmonton, Alberta based Delta Genomics Centre, an animal genomics laboratory in Canada. Delta's laboratory operations were renamed Neogen Canada and the acquisition was intended to accelerate growth of the Company's animal genomics business in Canada. Consideration for the purchase was $1,485,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $38,000, machinery and equipment of $371,000, unearned revenue liability of $125,000, intangible assets of $532,000 (with an estimated life of 5 to 10 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. Services provided by this operation continue to be performed in Edmonton, reporting within the Animal Safety segment.

7. LONG TERM DEBT

We have a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which was amended on November 30, 2018 to extend the maturity from September 1, 2019 to September 30, 2021. There were no advances against the line of credit during fiscal 2019 and there have been none thus far in fiscal 2020; there was no balance outstanding at August 31, 2019. Interest on any borrowings remained at LIBOR plus 100 basis points (rate under the terms of the agreement was 3.08% at August 31, 2019). 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, 2019.

8. 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, 2019 and May 31, 2019, 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 currently 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 currently 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.

9. STOCK PURCHASE

In October 2018, the Company's Board of Directors passed a resolution canceling the Company's prior stock buyback program, which had been approved in December 2008, and authorized a new program to purchase, subject to market conditions, up to 3,000,000 shares of the Company's common stock. In December 2018, the Company purchased 50,000 shares under the program in negotiated and open market transactions for a total price, including commissions, of $3,134,727. Shares acquired under the program have been retired.

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, 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 $101.4 million in the first quarter of fiscal 2020, an increase of 2% compared to $99.6 million in the first quarter of fiscal 2019. Organic sales increased 1%.
- Food Safety segment sales were $51.0 million in the first quarter of the current fiscal year, a decrease of 2% compared to $52.2 million in the same period of the prior year. Organic sales in this segment also decreased 2%, after excluding a minor contribution from the August 1, 2018 acquisition of Clarus Labs.
- Animal Safety segment sales were $50.4 million in the first quarter, an increase of 6% compared to prior year first quarter sales of $47.4 million. Organic sales in this segment increased 5%, with the acquisitions of Livestock Genetics (September 2018) and Delta Genomics (January 2019) providing the remainder of the increase.
- International sales in the first quarter of fiscal 2020 were 37.5% of total sales compared to 39.9% of total sales in the first quarter of fiscal 2019.
- Our effective tax rate in the first quarter of fiscal 2020 was 17.0% compared to an effective tax rate of 11.1% in the prior year first quarter. The prior year's first quarter effective tax rate was lower primarily due to tax benefits from stock options.
- Net income for the quarter ended August 31, 2019 was $14.7 million, or $0.28 per diluted share, a decrease of 4% compared to $15.2 million, or $0.29 per share, for the same period in the prior year.
- Cash generated from operating activities in the first quarter of fiscal 2020 was $23.7 million, compared to $16.1 million in the first quarter of fiscal 2019.

Neogen's results reflect a 4% decrease in international sales in the first quarter of fiscal 2020 compared to the same period in the prior fiscal year. International growth in this quarter was adversely impacted by currency rates, the loss of forensics business in Brazil and a large prior year non-recurring government sale, also in Brazil. Revenue changes, expressed in percentages, in the first quarter of fiscal 2020 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
Neogen Europe (including Lab M & Quat-Chem)	(4)%	1%
Neogen do Brasil (including Deoxi & Rogama)	(16)%	(15)%
Neogen Latinoamerica	5%	5%
Neogen China	(18)%	(14)%
Neogen India	22%	24%
Neogen Canada	98%	99%
Neogen Australasia	21%	30%

Currency translations reduced comparative revenues by approximately $1.2 million in the first quarter of fiscal 2020 compared to the same quarter a year ago, primarily due to increased strength of the U.S. dollar relative to the British pound and the Australian dollar. Neogen Europe's 4% decline in revenue in the first quarter was primarily due to a 2% decrease in sales of natural toxins test kits; prior year sales in this category were enhanced due to a mild deoxynivalenol (DON) outbreak in France that contributed to increased testing in that period. Additionally, the first quarter of fiscal 2019 included a large equipment sale that did not recur in the current year. Partially offsetting these declines were strong sales of cleaners and disinfectants.

At our Brazilian operations, the prior year first quarter included the final shipment of a large non-recurring insecticide order to a government health organization. Additionally, forensic sales in Brazil decreased significantly due to lost business from a large commercial laboratory that converted their testing protocol to a higher throughput method. Partially offsetting these lower revenues, sales of our aflatoxin test kits rose 57% as we continued to gain market share of corn testing in Brazil. At Neogen Latinoamerica, the growth in the first quarter was led by sales of natural toxins test kits due to market share gains, partially offset by lower sales of biosecurity products.

Service revenue, which consists primarily of genomics services to animal protein and companion animal markets, was $19.5 million in the first quarter of fiscal 2020, an increase of 17% over prior year first quarter revenues of $16.7 million, with minor contributions from the acquisitions of Livestock Genetics (September 2018) and Delta Genomics (January 2019). The growth was led by increases of genomic testing service revenues to the companion animal and global beef and dairy cattle markets.

Revenues

	Three Months ended August 31, 2019	2018	Increase/ (Decrease)	%
		(in thousands)		
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 20,115	$18,838	$ 1,277	7%
Bacterial & General Sanitation	10,316	10,467	(151)	(1)%
Culture Media & Other	11,279	12,217	(938)	(8)%
Rodenticides, Insecticides & Disinfectants	5,449	6,625	(1,176)	(18)%
Genomics Services	3,862	4,036	(174)	(4)%
	$ 51,021	$52,183	$ (1,162)	(2)%
Animal Safety				
Life Sciences	$ 1,723	$ 2,080	$ (357)	(17)%
Veterinary Instruments & Disposables	11,336	10,404	932	9%
Animal Care & Other	6,405	6,398	7	0%
Rodenticides, Insecticides & Disinfectants	16,718	17,146	(428)	(2)%
Genomics Services	14,221	11,415	2,806	25%
	$ 50,403	$47,443	$ 2,960	6%
Total Revenues	$101,424	$99,626	$ 1,798	2%

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category increased 7% in the first quarter of fiscal 2020, led by a 9% increase in sales of natural toxins test kits primarily due to market share gains of aflatoxin kits in Brazil. Sales of allergen test kits increased 8% while sales of dairy drug residue test kits decreased 3%.

Bacterial & General Sanitation – Revenues in this category decreased 1% in the first quarter, due to lower equipment sales compared to the first quarter of the prior year, resulting from backorders of equipment from our primary supplier. Partially offsetting the decrease was a 12% increase in sales of our environmental sanitation product line and a 20% increase in sales of *Listeria* test kits, as we continue to increase market share with our *Listeria* Right Now test kit.

Culture Media & Other – Sales in this category decreased 8% in the first quarter of fiscal 2020 compared to the same period in the prior year. This category includes sales of forensic test kits sold within Brazil, which decreased significantly, as a large customer moved to a higher throughput method. Sales of Neogen Culture Media were down 4%, due primarily to order timing from a number of international distributors and large U.S. customers.

Rodenticides, Insecticides & Disinfectants – Sales of products in this category sold through our Food Safety operations decreased 18% in the first quarter of fiscal 2020. The decrease was due primarily to the final shipment of a large non-recurring insecticide order to a government health organization in Brazil in the first quarter of the prior year. A decline in disinfectant sales in Central America and rodenticide sales in Mexico, both due to order timing from distributors, also contributed to the decrease in this category in the first quarter. Partially offsetting this was a 6% increase in sales at U.K.-based Quat-Chem and an increase in sales of disinfectant products in China, the result of increased demand in the pork market caused by the African swine fever virus outbreak in that country.

Genomics Services – Sales of genomics services sold through our Food Safety operations decreased 4% in the quarter ended August 31, 2019. The decrease is due to lower sales in China, as testing in the pork industry declined due to animal losses suffered as the result of the African swine fever virus. The strengthening of the U.S. dollar against the British pound also contributed to the decline; in local currency, genomics sales through our Neogen Europe operation increased 4%.

Animal Safety

Life Sciences – Sales in this category decreased 17% in the first quarter. The prior year first quarter included sales to a commercial laboratory customer that were transferred to our Brazilian operation in the second quarter of fiscal 2019.

Veterinary Instruments & Disposables – Revenues in this category increased 9% in the first quarter of fiscal 2020, led by growth in disposable syringes and marking products due to market share gains, offsetting a 17% decrease in detectable needles.

Animal Care & Other – Sales of these products were flat in the first quarter as compared to the same period a year ago. Promotional programs with distributors are recorded as a contra revenue within this category. Adjustments to these amounts, which can vary from quarter to quarter, resulted in a higher reduction of revenue in the current year first quarter than in the prior year. Offsetting this, sales of our animal care product lines increased 10%.

Rodenticides, Insecticides & Disinfectants – Sales in this category decreased 2% in the first quarter of fiscal 2020 compared to the same period in the prior year. Rodenticide sales were down 8%, as demand declined due to weak rodent pressure in certain areas of the U.S. Insecticide sales increased 6%, and cleaners and disinfectants sales were flat as growth in the U.S. was offset by lower sales to international distributors.

Genomics Services – Sales in this category increased 25% in the first quarter, aided by minor contributions from the Livestock Genetics (September 2018) and Delta Genomics (January 2019) acquisitions; organic growth in this category was 21%. The growth was led by increases of sales to the companion animal and beef and dairy cattle markets, and to a lesser extent, sheep testing business in Australia.

Gross Margin

Gross margin was 47.5% in the first quarter of fiscal 2020 compared to 46.9% in the same quarter a year ago. Animal Safety gross margins improved by 130 basis points, primarily the result of increased gross margins in the domestic genomics testing service business, while gross margins in the Food Safety segment rose by 50 basis points, on higher sales of natural toxin test kits, and decreased sales of lower margin products.

Operating Expenses

Operating expenses were $31.9 million in the first quarter of fiscal 2020, compared to $30.3 million in the first quarter of fiscal 2019, an increase of $1.6 million, or 6%. Sales and marketing expenses were $17.5 million, compared to $17.2 million in last year's first quarter, an increase of 2%, in line with the revenue increase. General and administrative expense increased $501,000, or 5%, in the first quarter, primarily due to increased legal and professional fees, depreciation related to investments in information technology, and higher stock-based compensation expense. Research and development expense was $3.7 million in the first quarter, an increase of $869,000 compared to the same period in the prior year. The increase is primarily the result of development spending on a number of new products, which are expected to be launched in late fiscal 2020 and early fiscal 2021.

Operating Income

Operating income was $16.3 million in the first quarter, compared to $16.5 million in the same period of the prior year. Expressed as a percentage of revenue, operating income was 16.0% compared to 16.5% in last year's first quarter. The decline in operating margin percentage for the comparative quarter was primarily the result of the increase in research and development spending in the current quarter.

Other Income

(dollars in thousands)	Three Months ended August 31, 2019	2018
Interest income (net of expense)	$1,510	$ 927
Foreign currency transactions	(117)	(386)
Royalty income	1	22
Deoxi contingent consideration	—	(9)
Other	(7)	104
Total Other Income	$1,387	$ 658

The increase in interest income in the first quarter of fiscal 2020 compared to the prior year first quarter is the result of higher cash and marketable securities balances and higher yields on those balances. Other expense resulting from foreign currency transactions is primarily the result of changes in the value of foreign currencies relative to the dollar in countries in which we operate; all of the currencies in those countries depreciated against the dollar during the comparative quarters.

Income Tax Expense

Income tax expense for the first quarter of fiscal 2020 was $3.0 million, an effective tax rate of 17.0%, compared to prior year income tax expense of $1.9 million, an effective tax rate of 11.1%. 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 $769,000 in the first quarter of fiscal 2020 compared to $2.3 million in the first quarter of the prior year.

Net Income

Net income was $14.7 million in the first quarter of fiscal 2020, compared to $15.2 million in the first quarter of fiscal 2019. The decline in earnings was the result of the increase in the effective tax rate, which was caused by decreased tax benefits resulting from the exercise of stock options, due to lower option exercise activity in the first quarter of this fiscal year compared to the same period a year ago.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $291.0 million at August 31, 2019, compared to $267.5 million at May 31, 2019. Approximately $23.7 million was generated from operations during the first three months of fiscal 2020. Net cash proceeds of $8.7 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 $6.5 million for property, equipment and other non-current assets in the first three months of fiscal 2020.

Net accounts receivable balances were $79.1 million at August 31, 2019, a decline of $3.5 million, compared to $82.6 million at May 31, 2019. Days sales outstanding, a measurement of the time it takes to collect receivables, were 64 days at August 31, 2019, compared to 61 days at May 31, 2019 and 64 days at August 31, 2018. All customer accounts are actively managed and no losses in excess of amounts reserved are currently expected.

Net inventory balances were $87.7 million at August 31, 2019, an increase of $1.7 million, or 2%, compared to May 31, 2019 balances of $86.0 million. We actively monitor our inventory levels, and balance the need for adequate levels of product availability to minimize backorders with a desire to improve inventory turns. We have continued with our active programs to improve our turnover in fiscal 2020.

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, 2019, along with available borrowings under its 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 its 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 variable rate borrowings (no long-term borrowings at August 31, 2019) and 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, the euro, the Brazilian real, the Mexican peso, the Chinese yuan, the Australian dollar, and to a lesser extent, the Indian rupee and the Canadian dollar. 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 recognized revenues in the course of collection can be affected positively or negatively by changes in exchange rates. The Company enters into forward contracts to help mitigate the economic impact of fluctuations in certain currency exchange rates. These contracts are adjusted to fair value through earnings.

Neogen has assets, liabilities and operations outside of the United States, located in Scotland, England, Brazil, Mexico, China, India, Canada, and Australia where the functional currency is the British pound sterling, Brazilian real, Mexican peso, Chinese yuan, Indian rupee, Canadian dollar and the Australian dollar respectively, and transacts business throughout Europe in the euro. The Company's investments in foreign subsidiaries are considered to be long-term.

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, 2019 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, 2019 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

3	Articles of Incorporation, as restated (incorporated by reference to Exhibit 3 to the registrant's Form 10-Q filed on December 28, 2018)
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 Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. section 1350
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
EX-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 26, 2019

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

Dated: September 26, 2019

/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, 2019 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 26, 2019

/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, 2019 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 26, 2019

/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, 2019 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 26, 2019

/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.