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

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 February 28, 2022.

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
Common Stock, $0.16 par value per share	**NEOG**	**NASDAQ Global Select Market**

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, 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 Exchange Act): YES ☐ NO ☒

As of February 28, 2022 there were 107,818,159 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)

	February 28, 2022	May 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 42,879	$ 75,602
Marketable securities	335,560	305,485
Accounts receivable, less allowance of $1,600 and $1,400 at February 28, 2022 and May 31, 2021, respectively	92,978	91,823
Inventories	113,395	100,701
Prepaid expenses and other current assets	24,821	17,840
Total Current Assets	609,633	591,451
Net Property and Equipment	104,699	100,453
Other Assets		
Right of use assets	2,762	2,477
Goodwill	150,029	131,476
Other non-amortizable intangible assets	15,451	15,545
Amortizable intangible and other assets, net of accumulated amortization of $53,838 and $53,462 at February 28, 2022 and May 31, 2021, respectively	96,613	76,771
Other non-current assets	2,018	2,019
Total Assets	$ 981,205	$920,192
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 23,548	$ 23,900
Accrued compensation	9,655	11,251
Income taxes	0	1,848
Other accruals	32,507	16,600
Total Current Liabilities	65,710	53,599
Deferred Income Taxes	21,196	21,917
Other Non-Current Liabilities	18,755	4,299
Total Liabilities	105,661	79,815
Commitments and Contingencies (note 10)		
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, 107,818,159 and 107,468,304 shares issued and outstanding at February 28, 2022 and May 31, 2021, respectively	17,251	17,195
Additional paid-in capital	307,780	294,953
Accumulated other comprehensive loss	(22,439)	(11,375)
Retained earnings	572,952	539,604
Total Stockholders' Equity	875,544	840,377
Total Liabilities and Stockholders' Equity	$ 981,205	$920,192

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 February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Revenues				
Product revenues	$101,566	$ 92,816	$311,701	$273,288
Service revenues	26,678	23,893	75,365	67,746
Total Revenues	128,244	116,709	387,066	341,034
Cost of Revenues				
Cost of product revenues	56,550	49,466	167,650	145,336
Cost of service revenues	14,282	13,394	41,402	38,333
Total Cost of Revenues	70,832	62,860	209,052	183,669
Gross Margin	57,412	53,849	178,014	157,365
Operating Expenses				
Sales and marketing	21,477	18,693	63,220	52,938
General and administrative	24,997	15,146	60,985	38,343
Research and development	4,561	4,236	13,218	12,170
Total Operating Expenses	51,035	38,075	137,423	103,451
Operating Income	6,377	15,774	40,591	53,914
Other Income (Expense)				
Interest income	314	294	741	1,571
Other expense	(48)	(91)	(34)	(363)
Total Other Income	266	203	707	1,208
Income Before Taxes	6,643	15,977	41,298	55,122
Provision for Income Taxes	1,200	2,600	7,950	10,000
Net Income	$ 5,443	$ 13,377	$ 33,348	$ 45,122
Net Income Per Share				
Basic	$ 0.05	$ 0.13	$ 0.31	$ 0.42
Diluted	$ 0.05	$ 0.12	$ 0.31	$ 0.42
Weighted Average Shares Outstanding				
Basic	107,818	106,826	107,648	106,264
Diluted	108,133	107,390	108,130	106,768

See notes to interim consolidated financial statements.

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

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Net income	$ 5,443	$ 13,377	$ 33,348	$ 45,122
Other comprehensive income (loss), net of tax:				
foreign currency translations	2,789	360	(9,482)	5,419
Other comprehensive loss, net of tax:				
unrealized loss on marketable securities	(993)	(115)	(1,582)	(552)
Total comprehensive income	$ 7,239	$ 13,622	$ 22,284	$ 49,989

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 Income (Loss)	Retained Earnings	Total
Balance, June 1, 2021	**107,468**	**$17,195**	**$294,953**	**$ (11,375)**	**$539,604**	**$840,377**
Exercise of options and share-based compensation expense	6	1	1,838	—	—	1,839
Issuance of shares under employee stock purchase plan	19	3	896	—	—	899
Net income for the three months ended August 31, 2021	—	—	—	—	17,077	17,077
Other comprehensive loss for the three months ended August 31, 2021	—	—	—	(4,829)	—	(4,829)
Balance, August 31, 2021	**107,493**	**17,199**	**297,687**	**(16,204)**	**556,681**	**$855,363**
Exercise of options and share-based compensation expense	275	44	7,272	—	—	7,316
Net income for the three months ended November 30, 2021	—	—	—	—	10,828	10,828
Other comprehensive loss for the three months ended November 30, 2021	—	—	—	(8,031)	—	(8,031)
Balance, November 30, 2021	**107,768**	**17,243**	**304,959**	**(24,235)**	**567,509**	**$865,476**
Exercise of options and share-based compensation expense	26	4	1,848	—	—	1,852
Issuance of shares under employee stock purchase plan	24	4	973	—	—	977
Net income for the three months ended February 28, 2022	—	—	—	—	5,443	5,443
Other comprehensive income for the three months ended February 28, 2022	—	—	—	1,796	—	1,796
Balance, February 28, 2022	**107,818**	**17,251**	**307,780**	**(22,439)**	**572,952**	**$875,544**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, June 1, 2020	**105,892**	**$16,943**	**$249,221**	**$ (19,709)**	**$478,722**	**$725,177**
Exercise of options and share-based compensation expense	172	28	5,811	—	—	5,839
Issuance of shares under employee stock purchase plan	18	3	665	—	—	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	**106,082**	**$16,974**	**$255,697**	**$ (15,707)**	**$494,582**	**$751,546**
Exercise of options and share-based compensation expense	406	64	9,279	—	—	9,343
Net income for the three months ended November 30, 2020	—	—	—	—	15,885	15,885
Other comprehensive income for the three months ended November 30, 2020	—	—	—	621	—	621
Balance, November 30, 2020	**106,488**	**17,038**	**264,976**	**(15,086)**	**510,467**	**777,395**
Exercise of options and share-based compensation expense	386	62	10,968	—	—	11,030
Issuance of shares under employee stock purchase plan	20	4	716			720
Issuance of shares for Megazyme acquisiton	128	20	4,896			4,916
Net income for the three months ended February 28, 2021	—	—	—	—	13,377	13,377
Other comprehensive income for the three months ended February 28, 2021	—	—	—	245	—	245
Balance, February 28, 2021	**107,022**	**17,124**	**281,556**	**(14,841)**	**523,844**	**807,683**

See notes to interim consolidated financial statements.

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

	Nine Months Ended February 28,	
	2022	2021
Cash Flows From Operating Activities		
Net Income	$ 33,348	$ 45,122
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	17,833	15,107
Share-based compensation	5,045	4,773
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(883)	1,019
Inventories	(11,956)	3,328
Prepaid expenses and other current assets	(3,824)	(1,908)
Accounts payable, accruals and other changes	8,085	(8,321)
Net Cash From Operating Activities	47,648	59,120
Cash Flows For Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(11,891)	(19,393)
Proceeds from the sale of marketable securities	284,367	602,233
Purchases of marketable securities	(314,442)	(604,694)
Business acquisitions, net of cash acquired	(38,164)	(52,000)
Net Cash For Investing Activities	(80,130)	(73,854)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	7,842	22,801
Net Cash From Financing Activities	7,842	22,801
Effect of Foreign Exchange Rates on Cash	(8,083)	(854)
Net Increase (Decrease) In Cash and Cash Equivalents	(32,723)	7,213
Cash and Cash Equivalents, Beginning of Period	75,602	66,269
Cash and Cash Equivalents, End of Period	$ 42,879	$ 73,482

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 and nine month periods ended February 28, 2022 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2022. 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, 2021.

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.

Share and per share amounts reflect the June 4, 2021 2-for-1 stock split as if it took place at the beginning of the periods presented.

Recently Adopted Accounting Standards

Income Tax Simplification

On June 1, 2021, the Company adopted ASU 2019-12, Income Taxes (Topic 740). This guidance provides amendments to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued Update 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides temporary optional expedients to applying the reference rate reform guidance to contracts that reference LIBOR or another reference rate expected to be discontinued. Under this update, contract modifications resulting in a new reference rate may be accounted for as a continuation of the existing contract. This guidance is effective upon issuance of the update and applies to contract modifications made through December 31, 2022. We will adopt this standard when LIBOR is discontinued and our lender begins using the new reference rate. We are evaluating the impact the new standard will have on our consolidated financial statements and related disclosures, but do not anticipate a material impact.

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 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.

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. 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. The right-of-use assets were $2,762,000 and $2,477,000 at February 28, 2022 and May 31, 2021, respectively. The total current and non-current lease liabilities were $2,781,000 and $2,492,000 at February 28, 2022 and May 31, 2021, respectively.

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 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, restricted stock units (RSUs) 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, an estimate of award forfeitures, 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. For RSUs, we use the intrinsic value method to value the units.

To value equity awards, 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 accommodate most of the specific features included in the options granted, which are the reason for their use. If different models 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 7.

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.

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 $42,879,000 and $75,602,000 at February 28, 2022 and May 31, 2021, 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 February 28, 2022. 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 securities investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable securities 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 February 28, 2022 and May 31, 2021 are listed below by classification and remaining maturities.

(in thousands)	Maturity	February 28, 2022	May 31, 2021
Commercial Paper & Corporate Bonds	0 - 90 days	94,740	106,631
	91 - 180 days	85,373	78,727
	181 days - 1 year	57,310	87,590
	1 - 2 years	97,887	26,752
Certificates of Deposit	0 - 90 days	250	3,262
	91 - 180 days	—	1,260
	181 days - 1 year	—	1,263
	1 - 2 years	—	—
Total Marketable Securities		$ 335,560	$305,485

The components of marketable securities at February 28, 2022 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	337,159	7	(1,856)	335,310
Certificates of Deposit	250	—	—	250
Total Marketable Securities	$337,409	$ 7	$ (1,856)	$335,560

The components of marketable securities at May 31, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	299,524	209	(33)	299,700
Certificates of Deposit	5,755	30	—	5,785
Total Marketable Securities	$305,279	$ 239	$ (33)	$305,485

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)	February 28, 2022	May 31, 2021
Raw materials	$ 54,747	$ 47,588
Work-in-process	6,314	6,412
Finished and purchased goods	52,334	46,701
	$ 113,395	$100,701

4. 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 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 recognize 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, 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, 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 and nine month periods ended February 28, 2022 and 2021:

(in thousands)	Three Months ended February 28, 2022	2021	Nine Months ended February 28, 2022	2021
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 17,965	$ 18,255	$ 59,397	$ 57,271
Bacterial & General Sanitation	11,288	10,335	34,709	31,502
Culture Media & Other	18,145	16,094	56,136	42,480
Rodenticides, Insecticides & Disinfectants	9,577	8,436	25,459	24,324
Genomics Services	5,781	5,304	16,909	14,566
	$ 62,756	$ 58,424	$ 192,610	$ 170,143
Animal Safety				
Life Sciences	$ 1,339	$ 1,399	$ 4,011	$ 4,122
Veterinary Instruments & Disposables	17,047	12,494	47,956	34,843
Animal Care & Other	9,449	8,873	29,517	25,902
Rodenticides, Insecticides & Disinfectants	18,359	18,085	58,777	56,470
Genomics Services	19,294	17,434	54,195	49,554
	$ 65,488	$ 58,285	$ 194,456	$ 170,891
Total Revenues	$ 128,244	$ 116,709	$ 387,066	$ 341,034

5. NET INCOME PER SHARE

The calculation of net income per share follows:

(in thousands, except per share amounts)	Three Months Ended February 28, 2022	2021	Nine Months Ended February 28, 2022	2021
Numerator for basic and diluted net income per share:				
Net income attributable to Neogen	$ 5,443	$ 13,377	$ 33,348	$ 45,122
Denominator for basic net income per share:				
Weighted average shares	107,818	106,826	107,648	106,264
Effect of dilutive stock options and RSUs	315	564	482	504
Denominator for diluted net income per share	108,133	107,390	108,130	106,768
Net income attributable to Neogen per share:				
Basic	$ 0.05	$ 0.13	$ 0.31	$ 0.42
Diluted	$ 0.05	$ 0.12	$ 0.31	$ 0.42

6. 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 February 28, 2022				
Product revenues to external customers	$ 55,372	$ 46,194	$ —	$101,566
Service revenues to external customers	7,384	19,294	—	26,678
Total revenues to external customers	62,756	65,488	—	128,244
Operating income (loss)	8,191	10,783	(12,597)	6,377
Total assets	302,605	298,854	379,746	981,205
As of and for the three months ended February 28, 2021				
Product revenues to external customers	$ 51,965	$ 40,851	$ —	$ 92,816
Service revenues to external customers	6,459	17,434	—	23,893
Total revenues to external customers	58,424	58,285	—	116,709
Operating income (loss)	7,911	11,657	(3,794)	15,774
Total assets	287,690	239,179	353,347	880,216

(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.

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the nine months ended February 28, 2022				
Product revenues to external customers	$171,439	$140,261	$ —	$311,700
Service revenues to external customers	21,171	54,195	—	75,366
Total revenues to external customers	192,610	194,456	—	387,066
Operating income (loss)	29,216	36,246	(24,871)	40,591
As of and for the nine months ended February 28, 2021				
Product revenues to external customers	$151,951	$121,337	$ —	$273,288
Service revenues to external customers	18,192	49,554	—	67,746
Total revenues to external customers	170,143	170,891	—	341,034
Operating income (loss)	24,834	36,068	(6,988)	53,914

(1) Includes elimination of intersegment transactions.

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

(in thousands)	Three months ended February 28,		Nine months ended February 28,	
	2022	2021	2022	2021
Domestic	$ 77,297	$ 70,387	$231,454	$207,544
International	50,947	46,322	155,612	133,490
Total revenue	128,244	116,709	387,066	341,034

7. 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 nine months ended February 28, 2022 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2021	2,957	$ 30.38
Granted	393	40.93
Exercised	(276)	22.69
Forfeited	(27)	31.18
Options outstanding February 28, 2022	3,047	$ 32.43

During the three and nine month periods ended February 28, 2022 and 2021, the Company recorded $1,607,000 and $1,581,000 and $5,045,000 and $4,773,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value per share of stock options granted during the first nine months of fiscal years 2022 and 2021, estimated on the date of grant using the Black-Scholes option pricing model, was $9.54 and $7.71, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY 2022	FY 2021
Risk-free interest rate	0.4%	0.2%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	32.8%	31.3%
Expected option life	3.12 years	3.25 years

The company grants restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan, which vest ratably over three and five year periods. The current units are expensed straight-line over the remaining weighted-average period of 4.32 years. On February 28, 2022 there was $6,203,000 in unamortized compensation cost related to non-vested RSUs.

(Options in thousands)	Shares	Weighted-Average Fair Value
RSUs outstanding June 1, 2021	121	$ 34.21
Granted	120	40.91
Released	(25)	34.24
Forfeited	(4)	35.61
RSUs outstanding February 28, 2022	212	$ 37.98

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 either the 2011 or the 2021 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.

8. BUSINESS COMBINATIONS

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the 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 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 final 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 manufactured at Neogen's operation in Iowa; the sales are reported within the Animal Safety segment.

On December 30, 2020, the Company acquired all of the stock of Megazyme, Ltd, an Ireland-based company, and its wholly-owned subsidiaries, U.S.-based Megazyme, Inc. and Ireland-based Megazyme IP. Megazyme is a manufacturer and supplier of diagnostic assay kits and enzymes to measure dietary fiber, complex carbohydrates and enzymes in food and beverages as well as animal feeds. This acquisition has allowed Neogen to expand its commercial relationships across food, feed and beverage companies, and provide additional food quality diagnostic products to commercial labs and food science research institutions. Consideration for the purchase was net cash of $39.8 million paid at closing, $8.6 million of cash placed in escrow payable to the former owner in two installments in two and four years, $4.9 million of stock issued at closing, and up to $2.5 million of contingent consideration, payable in two installments over one year, based upon 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 accounts receivable of $1,376,000, inventory of $5,595,000, net property, plant and equipment of $12,599,000, prepayments of $69,000, accounts payable of $4,000, other current liabilities of $1,815,000, contingent consideration accrual of $2,458,000, non-current liabilities of $319,000, non-current deferred tax liabilities of $3,306,000, intangible assets of $22,945,000 (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $1,229,000 for the first installment of contingent consideration, based upon the achievement of sales targets. In January 2022, the former order was paid $1,120,000 for the second installment of contingent consideration, also based upon the achievement of sales targets, less a deduction of $120,000 related to a prior period tax adjustment. The Irish companies continue to operate from their current locations in Bray, Ireland, reporting within the Food Safety segment and are managed through Neogen's Scotland operation. The company's U.S. business is managed by our Lansing-based Food Safety team.

On September 17, 2021, the Company acquired the stock of CAPInnoVet, Inc., a companion animal health business that provides pet medications to the veterinary market. This acquisition provides entry into the retail parasiticide market and enhances the Company's presence in companion animal markets. Consideration for the purchase was net cash of $17.9 million paid at closing, including $150,000 of cash placed in escrow payable to the former owners in twelve months. There is also the potential for performance milestone payments to the former owners of up to $6.5 million and the Company could incur up to $14.5 million in future royalty payments. The preliminary purchase allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $308,000, inventory of $482,000, prepayments of $296,000, accounts payable of $120,000, other current liabilities of $132,000, non-current liabilities of $13.9 million, intangible assets of $21.0 million (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from our location in Lexington, KY, reporting within the Animal Safety segment.

On November 30, 2021, the Company acquired the stock of Delf (U.K.) Ltd., a United Kingdom-based manufacturer and supplier of animal hygiene and industrial cleaning products, and Abbott Analytical Ltd., a related service provider. This acquisition will expand the Company's line of dairy hygiene products and will enhance our cleaner and disinfectant product portfolio. Consideration for the purchase was net cash of $9.5 million paid at closing, including $722,000 of cash placed in escrow payable to the former owner in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $1,059,000, inventory of $891,000, net property, plant and equipment of $152,000, prepayments of $31,000, accounts payable of $497,000, other current liabilities of $378,000, non-current deferred tax liabilities of $669,000, intangible assets of $2.6 million (with an estimated life of 10-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The companies continue to operate from their current location in Liverpool, England, reporting within the Food Safety segment and are managed through Neogen's Scotland operation.

On December 9, 2021, the Company acquired the stock of Genetic Veterinary Sciences, Inc., a companion animal genetic testing business providing genetic information for dogs, cats and birds to animal owners, breeders and veterinarians. This acquisition will further expand the Company's presence in the companion animal market. Consideration for the purchase was $11.4 million 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 $38,000, inventory of $523,000, net property, plant and equipment of $400,000, prepayments of $55,000, accounts payable of $297,000, unearned revenue of $1.6 million, other current liabilities of $287,000, intangible assets of $5.0 million (with an estimated life of 10-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from its current location in Spokane, Washington, reporting within the Animal Safety segment.

On December 13, 2021, the Company entered into a series of agreements to combine with 3M's Food Safety business in a Reverse Morris Trust transaction, which is expected to close in the first quarter of our next fiscal year. Please refer to Forms 8-K, dated December 14 and 15, 2021, Forms 425, dated December 14 and 15, 2021 and March 11, 2022, and Form S-4, dated March 17, 2022, filed with the Securities and Exchange Commission for more information.

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

9. 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 November 30, 2023. There were no advances against the line of credit during fiscal 2021 and there have been none thus far in fiscal 2022; there was no balance outstanding at February 28, 2022. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.24% at February 28, 2022). 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 February 28, 2022.

10. 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. We expense 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 remaining liability for these costs was $916,000 at both February 28, 2022 and May 31, 2021, measured on an undiscounted basis over an estimated period of 15 years. In fiscal 2019, the Company performed an updated Corrective Measures Study 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. However, the Company has agreed to a pilot study in which chemical reagents are injected into the ground in an attempt to reduce on-site contamination and is currently working with its consultant to design the system. At this time, the outcome of the pilot study is unknown, but a change in the current remediation strategy, depending on the alternative selected, could result in an increase in future costs and ultimately, an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded. The Company has recorded $300,000 as a current liability, and the remaining $616,000 is recorded in other non-current liabilities in the consolidated balance sheets.

On March 6, 2020, the Company received an administrative subpoena from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) regarding activities or transactions involving parties located in Iran. The Company subsequently conducted an internal investigation under the direction of outside legal counsel and disclosed information concerning certain genomic testing services provided to an unrelated U.S.-based party engaged in veterinary activities involving an Iranian party. The Company continues to cooperate with OFAC's investigation and is currently examining whether certain of these activities may be eligible for OFAC General Licenses authorizing agricultural and veterinary activities.

In addition to responding to the administrative subpoena, the Company is implementing additional compliance measures to prevent inadvertent dealings with restricted countries or parties. These measures will further enhance the Company's international trade compliance program, which is designed to assure that the Company does not conduct business directly or indirectly with any countries or parties subject to U.S. economic sanctions and export control laws. Although it is too early to predict what action, if any, that OFAC will take, the Company does not currently have any reason to believe that OFAC's pending investigation will have a material impact on its operations, the results of operations for any future period, or its overall financial condition. In fiscal 2020, the Company took a charge to expense and recorded a reserve of $600,000 to provide for potential fines or penalties on this matter. At this time, the Company believes that it is adequately reserved for this issue. 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, global business disruption caused by the Russia invasion in Ukraine and related sanctions, 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.

COVID-19

As we closely monitor the COVID-19 pandemic, our top priority remains protecting the health and safety of our employees. While operations continue in our locations around the world, many of our non-manufacturing and distribution employees continue to work remotely and travel remains limited. Safety guidelines and procedures, including social distancing, mask wearing and enhanced cleaning, have been developed for on-site employees and these policies are regularly monitored and updated by our internal Emergency Response Team.

In the first nine months of fiscal 2022, COVID-19, including new strains of the virus such as Delta and Omicron, continued to impact our business operations and financial results. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers' businesses around the world, particularly those serving restaurants, bars and other institutional food service markets. Many of our markets across the world are recovering, but the pandemic has continued to adversely impact our customers and ultimately, our revenues. We have also experienced supply chain difficulties including vendor disruptions, border closures, shipping issues and significantly increased shipping costs; labor shortages and higher labor costs, as we have had to use staffing agencies and increase our base pay in many areas of the company to fill open positions; and restricted travel, which hinders our ability to connect with customers. During the current fiscal year, we have incurred less expense for travel, meals, trade shows and some other customer-facing marketing activities; some of these activities have resumed but have not yet returned to pre-pandemic levels. Higher spend on shipping and labor are offsetting these savings.

Overall, the impact of COVID-19 remains uncertain and ultimately depends on the length and severity of the pandemic, inclusive of the introduction of new strains of the virus; the federal, state, and local government actions taken in response; vaccination rates and effectiveness; the impact of vaccination requirements; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 will impact our business, supply chain, including labor availability and attrition, consolidated results of operations, financial condition, and liquidity; we expect it to impact us through at least the end of our current fiscal year.

Executive Overview

(in thousands)	Three Months ended February 28, 2022	2021	%	Nine Months ended February 28, 2022	2021	%
Consolidated						
Revenues	$128,244	$116,709	10%	$387,066	$341,034	13%
Organic Sales Growth			*6%*			*10%*
Food Safety						
Revenues	$ 62,756	$ 58,424	7%	$192,610	$170,143	13%
Organic Sales Growth			*4%*			*8%*
Animal Safety						
Revenues	$ 65,488	$ 58,285	12%	$194,456	$170,891	14%
Organic Sales Growth			*9%*			*12%*
% of International Sales	40%	40%		40%	39%	
Effective Tax Rate	18.1%	16.3%		19.3%	18.1%	
Net Income	$ 5,443	$ 13,377	-59%	$ 33,348	$ 45,122	-26%
Per Diluted Share	$ 0.05	$ 0.12		$ 0.31	$ 0.42	
Cash from Operations				$ 47,648	$ 59,120	

- Food Safety organic sales exclude revenues from the acquisitions of Megazyme (December 2020) and Delf/Abbott Analytical (November 2021).
- Animal Safety organic sales exclude revenues from the acquisitions of StandGuard (July 2020), CAPInnoVet (September 2021) and Genetic Veterinary Sciences (December 2021).
- Net income decreased by $9.3 million and $10.6 million in the second and third quarters, respectively, of the current fiscal year primarily due to legal and consulting expenses for due diligence related to our recently announced agreement to combine with 3M’s Food Safety business.

International sales rose 10% in the third quarter of fiscal 2022 and increased 17% year to date, each compared to the same respective periods in the prior year. Excluding international sales from the Megazyme and Delf/Abbott Analytical acquisitions, the increase was 5% in the third quarter and 10% for the year to date. Revenue changes, expressed in percentages, for the three and nine month periods of fiscal 2022 compared to the same respective periods in the prior year are as follows for each of our international locations:

	Three Months Ended February 28, 2022		Nine Months Ended February 28, 2022	
	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency
U.K. Operations (including Neogen Italia)	16%	18%	14%	10%
Brazil Operations	(2)%	0%	(8)%	(8)%
Neogen Latinoamerica	1%	4%	12%	8%
Neogen Argentina	18%	44%	25%	59%
Neogen Uruguay	22%	27%	8%	11%
Neogen Chile	13%	28%	40%	46%
Neogen China	(17)%	(19)%	13%	9%
Neogen India	53%	57%	19%	20%
Neogen Canada	10%	10%	38%	33%
Neogen Australasia	20%	29%	32%	32%

Currency translations decreased comparative revenues by approximately $891,000 in the third quarter of fiscal 2022, due to currencies in several countries, including Australia, Argentina, the U.K., Mexico and Brazil, weakening relative to the U.S. dollar. For the year to date, comparative revenues were $2.4 million higher due to increased strength of the British pound and Mexican peso relative to the U.S. dollar in the first half of the fiscal year. Combined revenues at our U.K. operations increased 16% in the third quarter, with growth from strong cleaner and disinfectant sales into the U.K. and Asia and new culture media business with commercial laboratories in the U.K. that have adopted our recently launched One Broth One Plate workflow. For the nine month period, revenues at our U.K. operations increased 14%.

Sales in Brazil decreased 2% in this year's third quarter; the Company is discontinuing sales of lower gross margin dairy drug residue test kits which further contributed to an unfavorable comparison against the prior year. For the nine month period, sales at our Brazilian operations were down 8%, due to the previously mentioned decrease in dairy drug residue test kit sales and a large insecticide shipment that occurred in the first quarter of the prior year. Neogen Latinoamerica sales rose 1% for the third quarter; 10% growth in Food Safety products was offset by a decrease in sales of rodent control products to a large customer, due to the timing of shipments. For the year to date, sales increased 12%, primarily due to increases in natural toxins test kits, environmental sanitation products, culture media and biosecurity products. Sales at Neogen China decreased 17% for the three month period as China's "Zero COVID" strategy created lockdowns and restricted travel, which limited our ability to record sales. For the nine month period, sales in China increased 13% from new sales of Megazyme products and growth in genomics services, partially offset by a decrease in sales of biosecurity products in the third quarter. The Neogen Australasia location benefitted from increased genomics business with customers in the beef and sheep markets.

Service revenue, which includes genomics testing and other laboratory services, was $26.7 million in the third quarter of fiscal 2022, an increase of 12% over the prior year third quarter revenues of $23.9 million. For the nine month period, service revenue was $75.4 million, an increase of 11% over prior year revenues of $67.7 million. The growth for both the quarter and year to date periods was led by increases in revenues at our international genomics operations and domestic growth in our Food Safety lab services; revenues at our domestic genomics operation were reduced by lower volumes of companion animal samples, the result of a difficult comparison due to large increases in the prior year.

Revenues

(in thousands)	Three Months Ended February 28, 2022	2021	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 17,965	$ 18,255	$ (290)	(2)%
Bacterial & General Sanitation	11,288	10,335	953	9%
Culture Media & Other	18,145	16,094	2,051	13%
Rodenticides, Insecticides & Disinfectants	9,577	8,436	1,141	14%
Genomics Services	5,781	5,304	477	9%
	$ 62,756	$ 58,424	$ 4,332	7%
Animal Safety				
Life Sciences	$ 1,339	$ 1,399	$ (60)	(4)%
Veterinary Instruments & Disposables	17,047	12,494	4,553	36%
Animal Care & Other	9,449	8,873	576	6%
Rodenticides, Insecticides & Disinfectants	18,359	18,085	274	2%
Genomics Services	19,294	17,434	1,860	11%
	$ 65,488	$ 58,285	$ 7,203	12%
Total Revenues	$128,244	$116,709	$ 11,535	10%

(in thousands)	Nine Months Ended February 28, 2022	2021	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 59,397	$ 57,271	$ 2,126	4%
Bacterial & General Sanitation	34,709	31,502	3,207	10%
Culture Media & Other	56,136	42,480	13,656	32%
Rodenticides, Insecticides & Disinfectants	25,459	24,324	1,135	5%
Genomics Services	16,909	14,566	2,343	16%
	$192,610	$170,143	$ 22,467	13%
Animal Safety				
Life Sciences	$ 4,011	$ 4,122	$ (111)	(3)%
Veterinary Instruments & Disposables	47,956	34,843	13,113	38%
Animal Care & Other	29,517	25,902	3,615	14%
Rodenticides, Insecticides & Disinfectants	58,777	56,470	2,307	4%
Genomics Services	54,195	49,554	4,641	9%
	$194,456	$170,891	$ 23,565	14%
Total Revenues	$387,066	$341,034	$ 46,032	13%

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category decreased 2% for the three month period and increased 4% for the nine month period ended February 28, 2022, respectively, compared to the same periods in the prior year. In the third quarter, a 12% increase in sales of allergen test kits was offset by a 55% decline in sales of dairy drug residue test kits, as we are discontinuing sales of certain lower margin products; sales of natural toxins test kits decreased 1%. For the year to date, sales of allergen test kits rose 11% and natural toxins test kits sales increased 5%, partially offset by a 33% decline in the drug residue product line, as compared to the same period in the prior year.

Bacterial & General Sanitation – Revenues in this category increased 9% and 10% for the third quarter and for the year to date, compared to the same periods in the prior year. In the third quarter, sales of our AccuPoint® sanitation monitoring product line increased 16% aided by strong sales of our new reader. Sales of our Listeria Right Now™ product continued to gain market share with an increase of 13%, while sales of products to detect spoilage organisms in processed foods increased 4%.

Culture Media & Other – Sales in this category increased 13% in the quarter ended February 28, 2022 compared to the third quarter in the prior year; for the nine month period, sales increased 32%. Excluding sales from the December 2020 acquisition of Megazyme, which are reported in this category, sales increased 7% and 14% for the three and nine month periods, respectively. This category includes sales of veterinary instruments and other veterinary products at some of our international locations; these sales increased significantly over the prior year due to recovering markets and expanded market share. Sales of Neogen Culture Media products increased 11% in the third quarter as our new workflow, One Broth One Plate, continued to drive increased sales to commercial labs in the U.K. For the nine month period, Neogen Culture Media sales increased 18%, due to new business in the U.K. generated from our One Broth One Plate workflow; we also recorded a large domestic sale to a vaccine manufacturer in the first quarter of the current fiscal year.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 14% in the third quarter of fiscal 2022 compared to the same period a year ago, primarily due to the continued strength in sales of cleaners and disinfectants to Asia resulting from the African swine fever outbreak in that region increasing demand, and higher sales to a U.K.-based toll manufacturer. For the year to date, sales increased 5%.

Genomics Services – Sales of genomics services sold through our international Food Safety operations increased 9% and 16% for the three and nine month periods ended February 28, 2022, respectively. The increase in the third quarter resulted from overall strength at our labs in the U.K and Brazil as improved economic conditions in several markets have led to increased testing; our lab in China also contributed to the growth for the year to date period.

Animal Safety

Life Sciences – Sales in this category decreased 4% in the third quarter, compared to the same period in the prior year; for the year to date, the decrease in this product line was 3%. The decline in both periods was primarily due to the loss of hair testing business with a large U.S. commercial laboratory that moved to a different testing platform and a decrease in workplace drug testing.

Veterinary Instruments & Disposables – Revenues in this category increased 36% for the three month period ended February 28, 2022, led by a large increase in sales of veterinary instruments, including needles and syringes, resulting from recently won private label business; revenues increased 38% for the year to date.

Animal Care & Other – Sales of these products increased 6% and 14% in the three and nine month periods ended February 28, 2022, respectively; excluding the contribution of parasiticides from the September acquisition of CAPInnoVet, revenues in this category increased 1% in the third quarter and 11% year to date. For both periods, the growth in our vitamin injectables and antibiotics product lines were partially offset by a decline in sales of dairy supplies due to the June 2020 termination of an agreement under which we distributed these types of products for a large manufacturer of dairy equipment.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 2% for the three month period ended February 28, 2022. Insecticide sales rose 11% in the quarter, led by strong demand in the farm and home channels, and cleaners and disinfectants sales increased 2%. These increases were somewhat offset by a 5% decrease in rodenticide sales due to a difficult comparison resulting from strong sales in the prior year. Sales in this product category for the year to date period increased 4%, as compared to a year ago, for the same reasons.

Genomics Services – Sales in this category increased 11% and 9% in the third quarter and the year to date period, each compared to the prior year. The growth in both periods was led by increases in beef and sheep testing in Australia, due to improved market conditions and higher sample volumes from domestic dairy and beef cattle and poultry customers. Growth in both the three and nine month periods was partially offset by lower domestic companion animal revenues due to difficult prior year comparisons resulting from strong sales growth in those periods.

Gross Margin

Gross margin, expressed as a percentage of sales, was 44.8% in the third quarter of fiscal 2022 compared to 46.1% in the same quarter a year ago. The decline in gross margin percentage is the result of a 260 basis point decline in gross margin percentage in the Animal Safety segment; Food Safety gross margins remained constant compared to those in last year's third quarter, as a favorable product mix shift was offset by increased overhead costs. In the Animal Safety segment, the decline in gross margin percentage at the raw material line was the result of a mix shift resulting from lower sales of higher margin rodenticide products, due to a lessening of vole pressure across the domestic market, and a reduction in genomics service revenues in the domestic companion animal markets. Each of those product lines experienced significant growth in the prior year periods, resulting in difficult comparisons in the current year. Within each segment, higher raw material and freight costs, which resulted from continued supply chain disruptions and ongoing issues related to COVID-19 and its variants across most of our markets, put downward pressure on gross margins. The Company has taken pricing actions where appropriate in response to these cost increases. For the year to date, gross margin was 46.0% compared to 46.1% in the prior year, for the same reasons listed above.

Operating Expenses

Operating expenses were $51.0 million in the third quarter, compared to $38.1 million in the same quarter of the prior year, an increase of $12.9 million, or 34%. Legal, consulting and other professional fees totaling $10.6 million were incurred in the third quarter in conjunction with due diligence and negotiation of terms for our proposed business combination with 3M's Food Safety business, which was announced on December 14, 2021. Excluding costs related to the transaction, run rate operating expenses for the third quarter were $40.4 million, an increase of 6% compared to the prior year. For the nine month period ended February 28, 2022, operating expenses were $137.4 million, an increase of 33% compared to the prior year. Legal, consulting and other professional fees totaling $19.9 million have been incurred year to date in conjunction with due diligence and negotiation of terms for the proposed business combination with 3M's Food Safety business. Excluding the costs related to the transaction, run rate operating expenses year to date were $117.5 million, an increase of 14% compared to the prior year.

Sales and marketing expenses increased $2.8 million, or 15%, in the third quarter, primarily due to increases in personnel related expenses, the result of higher sales volumes and headcount. Additionally, travel, trade shows and other customer facing activities have continued to increase, the result of the easing of certain COVID-19 pandemic restrictions in a number of our markets. Shipping expenses increased 10% for the quarter and were up 19% for the year to date on increased volume and rates; for the year to date, sales and marketing expenses increased 19% compared to the same period last year.

General and administrative expense increased $9.9 million in the third quarter, primarily the result of $10.6 million in legal, consulting and other professional fees resulting from due diligence efforts and negotiation of terms relating to the proposed transaction with 3M referenced above. In the prior year third quarter, $2.3 million was incurred on strategic consulting, legal and other professional fees for an acquisition which we the Company was unsuccessful in completing. After adjusting for these acquisition expenses, third quarter run rate general and administrative expenses increased $1,532,000, or 12%. Year to date run rate general and administrative expenses rose $5.4 million, or 15%. For each comparative period, increases were the result of higher salaries and bonuses resulting from improved operating performance and additional senior management hires, amortization expenses from the Megazyme, CAPInnoVet and Delf (U.K.) acquisitions and higher depreciation and license fees relating to information technology infrastructure and software.

Research and development expense was $4.6 million in the third quarter, an increase of $325,000, or 8%, compared to the same period in the prior year. The increase was primarily the result of compensation and other personnel related increases and, for the three month period, incremental costs of personnel absorbed from the GVS acquisition in December 2021. For the year to date, research and development expenses increased 9% over the same period last year; the increases were the result of compensation and other personnel related increases, and the incremental costs of personnel absorbed from the Megazyme and GVS acquisitions. For each comparative period, these increases were somewhat offset by decreased outside service costs for new reader development, as these products were launched in the prior year.

Operating Income

Operating income was $6.4 million in the third quarter of fiscal 2022, compared to $15.8 million in the same period of the prior year. Adjusting for $10.6 million in costs resulting from the proposed 3M transaction, operating income was $17.0 million for the third quarter. Year to date operating income was $40.6 million compared to $53.9 million in the prior year; excluding $19.9 million in 3M-related costs, operating income was $60.5 million.. Expressed as a percentage of sales, operating income was 5% for the third quarter and 10.5% for the year to date, compared to 13.5% and 15.8%, respectively, for the same periods in the prior year. Adjusting for the costs resulting from the proposed 3M transaction, operating income was 13.2% for the third quarter and 15.6% for the year to date.

Other Income

(dollars in thousands)	Three Months Ended February 28, 2022	Three Months Ended February 28, 2021	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Interest income (net of expense)	$ 314	$ 294	$ 741	$ 1,571
Foreign currency transactions	(185)	(118)	(170)	(374)
Insurance settlement	—	—	—	309
Legal settlement	—	—	—	(300)
LGS contingent consideration	—	111	(135)	111
Other	137	(84)	271	(109)
Total Other Income	$ 266	$ 203	$ 707	$ 1,208

The decrease in interest income in the nine month period of fiscal 2022, compared to the same period a year ago was the result of lower yields on our marketable securities balances. Other income or expense resulting from foreign currency transactions was the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate. In the second quarter of the current fiscal year, we recorded a charge of $135,000 for additional contingent consideration in the final payment to the former owner of Livestock Genomic Services.

Income Tax Expense

Income tax expense in the third quarter of fiscal 2022 was $1.2 million, an effective tax rate of 18.1%, compared to $2.6 million, an effective tax rate of 16.3%, in the same period of the prior year. For the year to date, income tax expense was $8.0 million, an effective rate of 19.3%, in fiscal 2022 and $10.0 million, an effective rate of 18.1%, in fiscal 2021. For each period, the primary difference between the statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; due to lower exercises in the third quarter of the current fiscal year, this benefit was $33,000, compared to $1,083,000 in the third quarter of the prior year. For the year to date, the benefit was $907,000 in fiscal 2022 compared to $2,564,000 in fiscal 2021. Additionally, we incurred a $548,000 charge to expense in the first quarter of this fiscal year, due to the U.K. enacting a higher tax rate effective in April 2023. Since our deferred tax balances in the U.K. are expected to reverse in the future at the higher tax rate, we were required to revalue them when the new rate was passed.

Net Income

Net income was $5.4 million in the third quarter of fiscal 2022, compared to $13.4 million in the same period in the prior year. The decline in earnings for the year to date was the result of $10.6 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 2% compared to the same period in the prior year. For the year to date, net income was $33.3 million, a decrease of 26% compared to $45.1 million in the prior year. The decline in earnings for year to date was the result of $19.9 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 8% year to date compared to the same period in the prior year. Nine month net income in fiscal 2022 was also negatively impacted by a higher effective tax rate.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $378.4 million at February 28, 2022, compared to $381.1 million at May 31, 2021. Approximately $47.6 million was generated from operations during the first nine months of fiscal 2022 and we spent $38.2 million on business acquisitions. Net cash proceeds of $7.8 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first nine months of fiscal 2022. We spent $11.9 million for property, equipment and other non-current assets in the first nine months of fiscal 2022.

Net accounts receivable balances were $93.0 million at February 28, 2022, an increase of $1.2 million, compared to $91.8 million at May 31, 2021. Days' sales outstanding, a measurement of the time it takes to collect receivables, were 64 days at February 28, 2022, compared to 66 days at May 31, 2021 and 65 days at February 28, 2021. 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 related to the pandemic.

Net inventory was $113.4 million at February 28, 2022, an increase of $12.7 million, compared to a May 31, 2021 balance of $100.7 million. The two acquisitions completed in the second quarter added approximately $2.0 million to our inventory balance. The higher inventory levels are reflective of the inflationary pressures on raw material costs. Additionally, we have been increasing inventory levels recently in an effort to reduce freight costs and prevent backorders, as shipments from vendors are taking longer and some suppliers are requiring higher minimum order levels due to their supply constraints.

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 February 28, 2022, along with available borrowings under our credit facility and cash expected to be generated from operations, will be sufficient to fund activities for the remainder of the current fiscal year. However, existing cash and borrowing capacity will be insufficient to meet cash requirements for our planned combination with the 3M Food Safety business, which is currently expected to close in the third quarter of calendar year 2022. The transaction will be funded by issuing common stock to 3M's shareholders and borrowing approximately $1 billion in cash under a financing agreement with JPMorgan Chase.

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, Guatemalan quetzal, 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, Ireland, Italy, Brazil, Mexico, Guatemala, Argentina, Uruguay, Chile, China, India, Canada and Australia where the functional currency is the British pound sterling, euro, Brazilian real, Mexican peso, Guatemalan quetzal, Argentine peso, Uruguayan peso, Chilean peso, Chinese yuan, Indian rupee, Canadian dollar and Australian dollar, respectively. Our investments in foreign subsidiaries are considered long-term. As discussed in ITEM 1A. RISK FACTORS of our Annual Report on Form 10-K for the year ended May 31, 2021, our financial condition and results of operations could be adversely affected by currency fluctuations.

The following table sets forth the potential loss in future earnings or fair values, resulting from hypothetical changes in relevant market rates or prices:

Risk Category *(dollars in thousands)*	Hypothetical Change	February 28, 2022	Impact
Foreign Currency - Revenue	10% Decrease in exchange rates	$ 15,561	Earnings
Foreign Currency - Hedges	10% Decrease in exchange rates	1,973	Fair Value

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 February 28, 2022 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 February 28, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material pending legal proceedings, see Note 10 "Commitments and Contingencies" of the Notes to consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in the section captioned "Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021, except for the following risk factor, which has been added to reflect risks associated with current global conditions:

We are subject to risks relating to existing international operations and expansion into new geographical markets.

We focus on expanding sales globally as part of our overall growth strategy and expect sales from outside the United States to continue to represent a significant portion of our revenue. Neogen's international operations are subject to general risks related to such operations, including:

- political, social and economic instability and disruptions, including social unrest, geopolitical tensions, currency, inflation and interest rate uncertainties;
- government export controls, economic sanctions, embargoes or trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- limitations on ownership and on repatriation or dividend of earnings;
- transportation delays and interruptions;
- labor unrest and current and changing regulatory environments;
- increased compliance costs, including costs associated with disclosure requirements and related due diligence;
- difficulties in staffing and managing multi-national operations;
- limitations on Neogen's ability to enforce legal rights and remedies;
- access to or control of networks and confidential information due to local government controls and vulnerability of local networks to cyber risks; and
- fluctuations in foreign currency exchange rates.

If Neogen is unable to successfully manage the risks associated with expanding our global business or adequately manage operational risks of our existing international operations, these risks could have a material adverse effect on our growth strategy into new geographical markets, our reputation, our business, results of operations, financial condition and cash flows. In addition, the impact of such risks may be outside of Neogen's control and could decrease our ability to sell products internationally, which could adversely affect our business, financial condition, results of operations or cash flows. For example, as a result of the ongoing military conflict between Russia and Ukraine and resulting heightened economic sanctions from the United States and the international community, Neogen has discontinued sales into Russia. The United States and other countries have imposed significant sanctions and could impose even wider sanctions and take other actions should the conflict further escalate. While it is difficult to anticipate the effect the sanctions announced to date may have on Neogen, any further sanctions imposed or actions taken by the United States or other countries, including any expansion of sanctions beyond Russia, could affect the global price and availability of raw materials, reduce our sales and earnings or otherwise have an adverse effect on our business and results of operations.

Item 6. Exhibits

(a) Exhibit Index

2.1	Agreement and Plan of Merger, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation, Neogen Corporation and Nova RMT Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
2.2	Separation and Distribution Agreement, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
2.3	Asset Purchase Agreement, by and between 3M Company and Neogen Corporation, dated as of December 13, 2021 (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
3.1	Certificate of Amendment to Articles of Incorporation of Neogen Corporation filed on March 14, 2022 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Neogen Corporation on March 17, 2022).
10.1	Employee Matters Agreement, dated as of December 13, 2021, by and among Neogen Corporation, Garden SpinCo Corporation and 3M Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
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 – the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL 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: April 1, 2022

/s/ John E. Adent

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

Dated: April 1, 2022

/s/ Steven J. Quinlan

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

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

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 February 28, 2022.

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
Common Stock, $0.16 par value per share	NEOG	NASDAQ Global Select Market

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, 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 Exchange Act): YES ☐ NO ☒

As of February 28, 2022 there were 107,818,159 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)

	February 28, 2022	May 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 42,879	$ 75,602
Marketable securities	335,560	305,485
Accounts receivable, less allowance of $1,600 and $1,400 at February 28, 2022 and May 31, 2021, respectively	92,978	91,823
Inventories	113,395	100,701
Prepaid expenses and other current assets	24,821	17,840
Total Current Assets	609,633	591,451
Net Property and Equipment	104,699	100,453
Other Assets		
Right of use assets	2,762	2,477
Goodwill	150,029	131,476
Other non-amortizable intangible assets	15,451	15,545
Amortizable intangible and other assets, net of accumulated amortization of $53,838 and $53,462 at February 28, 2022 and May 31, 2021, respectively	96,613	76,771
Other non-current assets	2,018	2,019
Total Assets	$ 981,205	$920,192
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 23,548	$ 23,900
Accrued compensation	9,655	11,251
Income taxes	0	1,848
Other accruals	32,507	16,600
Total Current Liabilities	65,710	53,599
Deferred Income Taxes	21,196	21,917
Other Non-Current Liabilities	18,755	4,299
Total Liabilities	105,661	79,815
Commitments and Contingencies (note 10)		
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, 107,818,159 and 107,468,304 shares issued and outstanding at February 28, 2022 and May 31, 2021, respectively	17,251	17,195
Additional paid-in capital	307,780	294,953
Accumulated other comprehensive loss	(22,439)	(11,375)
Retained earnings	572,952	539,604
Total Stockholders' Equity	875,544	840,377
Total Liabilities and Stockholders' Equity	$ 981,205	$920,192

See notes to interim consolidated financial statements.

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

	Three Months Ended February 28, 2022	Three Months Ended February 28, 2021	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Revenues				
Product revenues	$101,566	$ 92,816	$311,701	$273,288
Service revenues	26,678	23,893	75,365	67,746
Total Revenues	128,244	116,709	387,066	341,034
Cost of Revenues				
Cost of product revenues	56,550	49,466	167,650	145,336
Cost of service revenues	14,282	13,394	41,402	38,333
Total Cost of Revenues	70,832	62,860	209,052	183,669
Gross Margin	57,412	53,849	178,014	157,365
Operating Expenses				
Sales and marketing	21,477	18,693	63,220	52,938
General and administrative	24,997	15,146	60,985	38,343
Research and development	4,561	4,236	13,218	12,170
Total Operating Expenses	51,035	38,075	137,423	103,451
Operating Income	6,377	15,774	40,591	53,914
Other Income (Expense)				
Interest income	314	294	741	1,571
Other expense	(48)	(91)	(34)	(363)
Total Other Income	266	203	707	1,208
Income Before Taxes	6,643	15,977	41,298	55,122
Provision for Income Taxes	1,200	2,600	7,950	10,000
Net Income	$ 5,443	$ 13,377	$ 33,348	$ 45,122
Net Income Per Share				
Basic	$ 0.05	$ 0.13	$ 0.31	$ 0.42
Diluted	$ 0.05	$ 0.12	$ 0.31	$ 0.42
Weighted Average Shares Outstanding				
Basic	107,818	106,826	107,648	106,264
Diluted	108,133	107,390	108,130	106,768

See notes to interim consolidated financial statements.

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

	Three Months Ended February 28, 2022	Three Months Ended February 28, 2021	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Net income	$5,443	$ 13,377	$33,348	$45,122
Other comprehensive income (loss), net of tax:				
foreign currency translations	2,789	360	(9,482)	5,419
Other comprehensive loss, net of tax:				
unrealized loss on marketable securities	(993)	(115)	(1,582)	(552)
Total comprehensive income	$7,239	$ 13,622	$22,284	$49,989

See notes to interim consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, June 1, 2021	**107,468**	**$17,195**	**$294,953**	**$ (11,375)**	**$539,604**	**$840,377**
Exercise of options and share-based compensation expense	6	1	1,838	—	—	1,839
Issuance of shares under employee stock purchase plan	19	3	896	—	—	899
Net income for the three months ended August 31, 2021	—	—	—	—	17,077	17,077
Other comprehensive loss for the three months ended August 31, 2021	—	—	—	(4,829)	—	(4,829)
Balance, August 31, 2021	**107,493**	**17,199**	**297,687**	**(16,204)**	**556,681**	**$855,363**
Exercise of options and share-based compensation expense	275	44	7,272	—	—	7,316
Net income for the three months ended November 30, 2021	—	—	—	—	10,828	10,828
Other comprehensive loss for the three months ended November 30, 2021	—	—	—	(8,031)	—	(8,031)
Balance, November 30, 2021	**107,768**	**17,243**	**304,959**	**(24,235)**	**567,509**	**$865,476**
Exercise of options and share-based compensation expense	26	4	1,848	—	—	1,852
Issuance of shares under employee stock purchase plan	24	4	973	—	—	977
Net income for the three months ended February 28, 2022	—	—	—	—	5,443	5,443
Other comprehensive income for the three months ended February 28, 2022	—	—	—	1,796	—	1,796
Balance, February 28, 2022	**107,818**	**17,251**	**307,780**	**(22,439)**	**572,952**	**$875,544**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, June 1, 2020	**105,892**	**$16,943**	**$249,221**	**$ (19,709)**	**$478,722**	**$725,177**
Exercise of options and share-based compensation expense	172	28	5,811	—	—	5,839
Issuance of shares under employee stock purchase plan	18	3	665	—	—	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	**106,082**	**$16,974**	**$255,697**	**$ (15,707)**	**$494,582**	**$751,546**
Exercise of options and share-based compensation expense	406	64	9,279	—	—	9,343
Net income for the three months ended November 30, 2020	—	—	—	—	15,885	15,885
Other comprehensive income for the three months ended November 30, 2020	—	—	—	621	—	621
Balance, November 30, 2020	**106,488**	**17,038**	**264,976**	**(15,086)**	**510,467**	**777,395**
Exercise of options and share-based compensation expense	386	62	10,968	—	—	11,030
Issuance of shares under employee stock purchase plan	20	4	716			720
Issuance of shares for Megazyme acquisiton	128	20	4,896			4,916
Net income for the three months ended February 28, 2021	—	—	—	—	13,377	13,377
Other comprehensive income for the three months ended February 28, 2021	—	—	—	245	—	245
Balance, February 28, 2021	**107,022**	**17,124**	**281,556**	**(14,841)**	**523,844**	**807,683**

See notes to interim consolidated financial statements.

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

	Nine Months Ended February 28, 2022	2021
Cash Flows From Operating Activities		
Net Income	$ 33,348	$ 45,122
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	17,833	15,107
Share-based compensation	5,045	4,773
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(883)	1,019
Inventories	(11,956)	3,328
Prepaid expenses and other current assets	(3,824)	(1,908)
Accounts payable, accruals and other changes	8,085	(8,321)
Net Cash From Operating Activities	47,648	59,120
Cash Flows For Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(11,891)	(19,393)
Proceeds from the sale of marketable securities	284,367	602,233
Purchases of marketable securities	(314,442)	(604,694)
Business acquisitions, net of cash acquired	(38,164)	(52,000)
Net Cash For Investing Activities	(80,130)	(73,854)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	7,842	22,801
Net Cash From Financing Activities	7,842	22,801
Effect of Foreign Exchange Rates on Cash	(8,083)	(854)
Net Increase (Decrease) In Cash and Cash Equivalents	(32,723)	7,213
Cash and Cash Equivalents, Beginning of Period	75,602	66,269
Cash and Cash Equivalents, End of Period	$ 42,879	$ 73,482

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 and nine month periods ended February 28, 2022 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2022. 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, 2021.

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.

Share and per share amounts reflect the June 4, 2021 2-for-1 stock split as if it took place at the beginning of the periods presented.

Recently Adopted Accounting Standards

Income Tax Simplification

On June 1, 2021, the Company adopted ASU 2019-12, Income Taxes (Topic 740). This guidance provides amendments to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued Update 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides temporary optional expedients to applying the reference rate reform guidance to contracts that reference LIBOR or another reference rate expected to be discontinued. Under this update, contract modifications resulting in a new reference rate may be accounted for as a continuation of the existing contract. This guidance is effective upon issuance of the update and applies to contract modifications made through December 31, 2022. We will adopt this standard when LIBOR is discontinued and our lender begins using the new reference rate. We are evaluating the impact the new standard will have on our consolidated financial statements and related disclosures, but do not anticipate a material impact.

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 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.

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. 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. The right-of-use assets were $2,762,000 and $2,477,000 at February 28, 2022 and May 31, 2021, respectively. The total current and non-current lease liabilities were $2,781,000 and $2,492,000 at February 28, 2022 and May 31, 2021, respectively.

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 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, restricted stock units (RSUs) 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, an estimate of award forfeitures, 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. For RSUs, we use the intrinsic value method to value the units.

To value equity awards, 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 accommodate most of the specific features included in the options granted, which are the reason for their use. If different models 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 7.

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.

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 $42,879,000 and $75,602,000 at February 28, 2022 and May 31, 2021, 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 February 28, 2022. 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 securities investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable securities 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 February 28, 2022 and May 31, 2021 are listed below by classification and remaining maturities.

(in thousands)	Maturity	February 28, 2022	May 31, 2021
Commercial Paper & Corporate Bonds	0 - 90 days	94,740	106,631
	91 - 180 days	85,373	78,727
	181 days - 1 year	57,310	87,590
	1 - 2 years	97,887	26,752
Certificates of Deposit	0 - 90 days	250	3,262
	91 - 180 days	—	1,260
	181 days - 1 year	—	1,263
	1 - 2 years	—	—
Total Marketable Securities		$ 335,560	$305,485

The components of marketable securities at February 28, 2022 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	337,159	7	(1,856)	335,310
Certificates of Deposit	250	—	—	250
Total Marketable Securities	$337,409	$ 7	$ (1,856)	$335,560

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The components of marketable securities at May 31, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	299,524	209	(33)	299,700
Certificates of Deposit	5,755	30	—	5,785
Total Marketable Securities	$305,279	$ 239	$ (33)	$305,485

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)	February 28, 2022	May 31, 2021
Raw materials	$ 54,747	$ 47,588
Work-in-process	6,314	6,412
Finished and purchased goods	52,334	46,701
	$ 113,395	$100,701

4. 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 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 recognize 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, 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, 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.

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The following table presents disaggregated revenue by major product and service categories for the three and nine month periods ended February 28, 2022 and 2021:

(in thousands)	Three Months ended February 28, 2022	2021	Nine Months ended February 28, 2022	2021
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 17,965	$ 18,255	$ 59,397	$ 57,271
Bacterial & General Sanitation	11,288	10,335	34,709	31,502
Culture Media & Other	18,145	16,094	56,136	42,480
Rodenticides, Insecticides & Disinfectants	9,577	8,436	25,459	24,324
Genomics Services	5,781	5,304	16,909	14,566
	$ 62,756	$ 58,424	$ 192,610	$ 170,143
Animal Safety				
Life Sciences	$ 1,339	$ 1,399	$ 4,011	$ 4,122
Veterinary Instruments & Disposables	17,047	12,494	47,956	34,843
Animal Care & Other	9,449	8,873	29,517	25,902
Rodenticides, Insecticides & Disinfectants	18,359	18,085	58,777	56,470
Genomics Services	19,294	17,434	54,195	49,554
	$ 65,488	$ 58,285	$ 194,456	$ 170,891
Total Revenues	$ 128,244	$ 116,709	$ 387,066	$ 341,034

5. NET INCOME PER SHARE

The calculation of net income per share follows:

(in thousands, except per share amounts)	Three Months Ended February 28, 2022	2021	Nine Months Ended February 28, 2022	2021
Numerator for basic and diluted net income per share:				
Net income attributable to Neogen	$ 5,443	$ 13,377	$ 33,348	$ 45,122
Denominator for basic net income per share:				
Weighted average shares	107,818	106,826	107,648	106,264
Effect of dilutive stock options and RSUs	315	564	482	504
Denominator for diluted net income per share	108,133	107,390	108,130	106,768
Net income attributable to Neogen per share:				
Basic	$ 0.05	$ 0.13	$ 0.31	$ 0.42
Diluted	$ 0.05	$ 0.12	$ 0.31	$ 0.42

6. 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 February 28, 2022				
Product revenues to external customers	$ 55,372	$ 46,194	$ —	$101,566
Service revenues to external customers	7,384	19,294	—	26,678
Total revenues to external customers	62,756	65,488	—	128,244
Operating income (loss)	8,191	10,783	(12,597)	6,377
Total assets	302,605	298,854	379,746	981,205
As of and for the three months ended February 28, 2021				
Product revenues to external customers	$ 51,965	$ 40,851	$ —	$ 92,816
Service revenues to external customers	6,459	17,434	—	23,893
Total revenues to external customers	58,424	58,285	—	116,709
Operating income (loss)	7,911	11,657	(3,794)	15,774
Total assets	287,690	239,179	353,347	880,216

(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.

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(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the nine months ended February 28, 2022				
Product revenues to external customers	$171,439	$140,261	$ —	$311,700
Service revenues to external customers	21,171	54,195	—	75,366
Total revenues to external customers	192,610	194,456	—	387,066
Operating income (loss)	29,216	36,246	(24,871)	40,591
As of and for the nine months ended February 28, 2021				
Product revenues to external customers	$151,951	$121,337	$ —	$273,288
Service revenues to external customers	18,192	49,554	—	67,746
Total revenues to external customers	170,143	170,891	—	341,034
Operating income (loss)	24,834	36,068	(6,988)	53,914

(1) Includes elimination of intersegment transactions.

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

(in thousands)	Three months ended February 28, 2022	Three months ended February 28, 2021	Nine months ended February 28, 2022	Nine months ended February 28, 2021
Domestic	$ 77,297	$ 70,387	$231,454	$207,544
International	50,947	46,322	155,612	133,490
Total revenue	128,244	116,709	387,066	341,034

7. 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 nine months ended February 28, 2022 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2021	2,957	$ 30.38
Granted	393	40.93
Exercised	(276)	22.69
Forfeited	(27)	31.18
Options outstanding February 28, 2022	3,047	$ 32.43

During the three and nine month periods ended February 28, 2022 and 2021, the Company recorded $1,607,000 and $1,581,000 and $5,045,000 and $4,773,000, respectively, of compensation expense related to its share-based awards.

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The weighted-average fair value per share of stock options granted during the first nine months of fiscal years 2022 and 2021, estimated on the date of grant using the Black-Scholes option pricing model, was $9.54 and $7.71, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY 2022	FY 2021
Risk-free interest rate	0.4%	0.2%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	32.8%	31.3%
Expected option life	3.12 years	3.25 years

The company grants restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan, which vest ratably over three and five year periods. The current units are expensed straight-line over the remaining weighted-average period of 4.32 years. On February 28, 2022 there was $6,203,000 in unamortized compensation cost related to non-vested RSUs.

(Options in thousands)	Shares	Weighted-Average Fair Value
RSUs outstanding June 1, 2021	121	$ 34.21
Granted	120	40.91
Released	(25)	34.24
Forfeited	(4)	35.61
RSUs outstanding February 28, 2022	212	$ 37.98

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 either the 2011 or the 2021 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.

8. BUSINESS COMBINATIONS

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the 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 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 final 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 manufactured at Neogen's operation in Iowa; the sales are reported within the Animal Safety segment.

On December 30, 2020, the Company acquired all of the stock of Megazyme, Ltd, an Ireland-based company, and its wholly-owned subsidiaries, U.S.-based Megazyme, Inc. and Ireland-based Megazyme IP. Megazyme is a manufacturer and supplier of diagnostic assay kits and enzymes to measure dietary fiber, complex carbohydrates and enzymes in food and beverages as well as animal feeds. This acquisition has allowed Neogen to expand its commercial relationships across food, feed and beverage companies, and provide additional food quality diagnostic products to commercial labs and food science research institutions. Consideration for the purchase was net cash of $39.8 million paid at closing, $8.6 million of cash placed in escrow payable to the former owner in two installments in two and four years, $4.9 million of stock issued at closing, and up to $2.5 million of contingent consideration, payable in two installments over one year, based upon 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 accounts receivable of $1,376,000, inventory of $5,595,000, net property, plant and equipment of $12,599,000, prepayments of $69,000, accounts payable of $4,000, other current liabilities of $1,815,000, contingent consideration accrual of $2,458,000, non-current liabilities of $319,000, non-current deferred tax liabilities of $3,306,000, intangible assets of $22,945,000 (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $1,229,000 for the first installment of contingent consideration, based upon the achievement of sales targets. In January 2022, the former order was paid $1,120,000 for the second installment of contingent consideration, also based upon the achievement of sales targets, less a deduction of $120,000 related to a prior period tax adjustment. The Irish companies continue to operate from their current locations in Bray, Ireland, reporting within the Food Safety segment and are managed through Neogen's Scotland operation. The company's U.S. business is managed by our Lansing-based Food Safety team.

On September 17, 2021, the Company acquired the stock of CAPInnoVet, Inc., a companion animal health business that provides pet medications to the veterinary market. This acquisition provides entry into the retail parasiticide market and enhances the Company's presence in companion animal markets. Consideration for the purchase was net cash of $17.9 million paid at closing, including $150,000 of cash placed in escrow payable to the former owners in twelve months. There is also the potential for performance milestone payments to the former owners of up to $6.5 million and the Company could incur up to $14.5 million in future royalty payments. The preliminary purchase allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $308,000, inventory of $482,000, prepayments of $296,000, accounts payable of $120,000, other current liabilities of $132,000, non-current liabilities of $13.9 million, intangible assets of $21.0 million (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from our location in Lexington, KY, reporting within the Animal Safety segment.

On November 30, 2021, the Company acquired the stock of Delf (U.K.) Ltd., a United Kingdom-based manufacturer and supplier of animal hygiene and industrial cleaning products, and Abbott Analytical Ltd., a related service provider. This acquisition will expand the Company's line of dairy hygiene products and will enhance our cleaner and disinfectant product portfolio. Consideration for the purchase was net cash of $9.5 million paid at closing, including $722,000 of cash placed in escrow payable to the former owner in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $1,059,000, inventory of $891,000, net property, plant and equipment of $152,000, prepayments of $31,000, accounts payable of $497,000, other current liabilities of $378,000, non-current deferred tax liabilities of $669,000, intangible assets of $2.6 million (with an estimated life of 10-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The companies continue to operate from their current location in Liverpool, England, reporting within the Food Safety segment and are managed through Neogen's Scotland operation.

On December 9, 2021, the Company acquired the stock of Genetic Veterinary Sciences, Inc., a companion animal genetic testing business providing genetic information for dogs, cats and birds to animal owners, breeders and veterinarians. This acquisition will further expand the Company's presence in the companion animal market. Consideration for the purchase was $11.4 million 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 $38,000, inventory of $523,000, net property, plant and equipment of $400,000, prepayments of $55,000, accounts payable of $297,000, unearned revenue of $1.6 million, other current liabilities of $287,000, intangible assets of $5.0 million (with an estimated life of 10-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from its current location in Spokane, Washington, reporting within the Animal Safety segment.

On December 13, 2021, the Company entered into a series of agreements to combine with 3M's Food Safety business in a Reverse Morris Trust transaction, which is expected to close in the first quarter of our next fiscal year. Please refer to Forms 8-K, dated December 14 and 15, 2021, Forms 425, dated December 14 and 15, 2021 and March 11, 2022, and Form S-4, dated March 17, 2022, filed with the Securities and Exchange Commission for more information.

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

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9. 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 November 30, 2023. There were no advances against the line of credit during fiscal 2021 and there have been none thus far in fiscal 2022; there was no balance outstanding at February 28, 2022. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.24% at February 28, 2022). 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 February 28, 2022.

10. 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. We expense 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 remaining liability for these costs was $916,000 at both February 28, 2022 and May 31, 2021, measured on an undiscounted basis over an estimated period of 15 years. In fiscal 2019, the Company performed an updated Corrective Measures Study 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. However, the Company has agreed to a pilot study in which chemical reagents are injected into the ground in an attempt to reduce on-site contamination and is currently working with its consultant to design the system. At this time, the outcome of the pilot study is unknown, but a change in the current remediation strategy, depending on the alternative selected, could result in an increase in future costs and ultimately, an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded. The Company has recorded $300,000 as a current liability, and the remaining $616,000 is recorded in other non-current liabilities in the consolidated balance sheets.

On March 6, 2020, the Company received an administrative subpoena from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) regarding activities or transactions involving parties located in Iran. The Company subsequently conducted an internal investigation under the direction of outside legal counsel and disclosed information concerning certain genomic testing services provided to an unrelated U.S.-based party engaged in veterinary activities involving an Iranian party. The Company continues to cooperate with OFAC's investigation and is currently examining whether certain of these activities may be eligible for OFAC General Licenses authorizing agricultural and veterinary activities.

In addition to responding to the administrative subpoena, the Company is implementing additional compliance measures to prevent inadvertent dealings with restricted countries or parties. These measures will further enhance the Company's international trade compliance program, which is designed to assure that the Company does not conduct business directly or indirectly with any countries or parties subject to U.S. economic sanctions and export control laws. Although it is too early to predict what action, if any, that OFAC will take, the Company does not currently have any reason to believe that OFAC's pending investigation will have a material impact on its operations, the results of operations for any future period, or its overall financial condition. In fiscal 2020, the Company took a charge to expense and recorded a reserve of $600,000 to provide for potential fines or penalties on this matter. At this time, the Company believes that it is adequately reserved for this issue. 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.

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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, global business disruption caused by the Russia invasion in Ukraine and related sanctions, 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.

COVID-19

As we closely monitor the COVID-19 pandemic, our top priority remains protecting the health and safety of our employees. While operations continue in our locations around the world, many of our non-manufacturing and distribution employees continue to work remotely and travel remains limited. Safety guidelines and procedures, including social distancing, mask wearing and enhanced cleaning, have been developed for on-site employees and these policies are regularly monitored and updated by our internal Emergency Response Team.

In the first nine months of fiscal 2022, COVID-19, including new strains of the virus such as Delta and Omicron, continued to impact our business operations and financial results. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers’ businesses around the world, particularly those serving restaurants, bars and other institutional food service markets. Many of our markets across the world are recovering, but the pandemic has continued to adversely impact our customers and ultimately, our revenues. We have also experienced supply chain difficulties including vendor disruptions, border closures, shipping issues and significantly increased shipping costs; labor shortages and higher labor costs, as we have had to use staffing agencies and increase our base pay in many areas of the company to fill open positions; and restricted travel, which hinders our ability to connect with customers. During the current fiscal year, we have incurred less expense for travel, meals, trade shows and some other customer-facing marketing activities; some of these activities have resumed but have not yet returned to pre-pandemic levels. Higher spend on shipping and labor are offsetting these savings.

Overall, the impact of COVID-19 remains uncertain and ultimately depends on the length and severity of the pandemic, inclusive of the introduction of new strains of the virus; the federal, state, and local government actions taken in response; vaccination rates and effectiveness; the impact of vaccination requirements; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 will impact our business, supply chain, including labor availability and attrition, consolidated results of operations, financial condition, and liquidity; we expect it to impact us through at least the end of our current fiscal year.

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Executive Overview

(in thousands)	Three Months ended February 28, 2022	2021	%	Nine Months ended February 28, 2022	2021	%
Consolidated						
Revenues	$128,244	$116,709	10%	$387,066	$341,034	13%
Organic Sales Growth			*6%*			*10%*
Food Safety						
Revenues	$ 62,756	$ 58,424	7%	$192,610	$170,143	13%
Organic Sales Growth			*4%*			*8%*
Animal Safety						
Revenues	$ 65,488	$ 58,285	12%	$194,456	$170,891	14%
Organic Sales Growth			*9%*			*12%*
% of International Sales	40%	40%		40%	39%	
Effective Tax Rate	18.1%	16.3%		19.3%	18.1%	
Net Income	$ 5,443	$ 13,377	-59%	$ 33,348	$ 45,122	-26%
Per Diluted Share	$ 0.05	$ 0.12		$ 0.31	$ 0.42	
Cash from Operations				$ 47,648	$ 59,120	

- Food Safety organic sales exclude revenues from the acquisitions of Megazyme (December 2020) and Delf/Abbott Analytical (November 2021).
- Animal Safety organic sales exclude revenues from the acquisitions of StandGuard (July 2020), CAPInnoVet (September 2021) and Genetic Veterinary Sciences (December 2021).
- Net income decreased by $9.3 million and $10.6 million in the second and third quarters, respectively, of the current fiscal year primarily due to legal and consulting expenses for due diligence related to our recently announced agreement to combine with 3M’s Food Safety business.

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International sales rose 10% in the third quarter of fiscal 2022 and increased 17% year to date, each compared to the same respective periods in the prior year. Excluding international sales from the Megazyme and Delf/Abbott Analytical acquisitions, the increase was 5% in the third quarter and 10% for the year to date. Revenue changes, expressed in percentages, for the three and nine month periods of fiscal 2022 compared to the same respective periods in the prior year are as follows for each of our international locations:

	Three Months Ended February 28, 2022		Nine Months Ended February 28, 2022	
	Revenue % Inc (Dec) USD	**Revenue % Inc (Dec) Local Currency**	**Revenue % Inc (Dec) USD**	**Revenue % Inc (Dec) Local Currency**
U.K. Operations (including Neogen Italia)	16%	18%	14%	10%
Brazil Operations	(2)%	0%	(8)%	(8)%
Neogen Latinoamerica	1%	4%	12%	8%
Neogen Argentina	18%	44%	25%	59%
Neogen Uruguay	22%	27%	8%	11%
Neogen Chile	13%	28%	40%	46%
Neogen China	(17)%	(19)%	13%	9%
Neogen India	53%	57%	19%	20%
Neogen Canada	10%	10%	38%	33%
Neogen Australasia	20%	29%	32%	32%

Currency translations decreased comparative revenues by approximately $891,000 in the third quarter of fiscal 2022, due to currencies in several countries, including Australia, Argentina, the U.K., Mexico and Brazil, weakening relative to the U.S. dollar. For the year to date, comparative revenues were $2.4 million higher due to increased strength of the British pound and Mexican peso relative to the U.S. dollar in the first half of the fiscal year. Combined revenues at our U.K. operations increased 16% in the third quarter, with growth from strong cleaner and disinfectant sales into the U.K. and Asia and new culture media business with commercial laboratories in the U.K. that have adopted our recently launched One Broth One Plate workflow. For the nine month period, revenues at our U.K. operations increased 14%.

Sales in Brazil decreased 2% in this year's third quarter; the Company is discontinuing sales of lower gross margin dairy drug residue test kits which further contributed to an unfavorable comparison against the prior year. For the nine month period, sales at our Brazilian operations were down 8%, due to the previously mentioned decrease in dairy drug residue test kit sales and a large insecticide shipment that occurred in the first quarter of the prior year. Neogen Latinoamerica sales rose 1% for the third quarter; 10% growth in Food Safety products was offset by a decrease in sales of rodent control products to a large customer, due to the timing of shipments. For the year to date, sales increased 12%, primarily due to increases in natural toxins test kits, environmental sanitation products, culture media and biosecurity products. Sales at Neogen China decreased 17% for the three month period as China's "Zero COVID" strategy created lockdowns and restricted travel, which limited our ability to record sales. For the nine month period, sales in China increased 13% from new sales of Megazyme products and growth in genomics services, partially offset by a decrease in sales of biosecurity products in the third quarter. The Neogen Australasia location benefitted from increased genomics business with customers in the beef and sheep markets.

Service revenue, which includes genomics testing and other laboratory services, was $26.7 million in the third quarter of fiscal 2022, an increase of 12% over the prior year third quarter revenues of $23.9 million. For the nine month period, service revenue was $75.4 million, an increase of 11% over prior year revenues of $67.7 million. The growth for both the quarter and year to date periods was led by increases in revenues at our international genomics operations and domestic growth in our Food Safety lab services; revenues at our domestic genomics operation were reduced by lower volumes of companion animal samples, the result of a difficult comparison due to large increases in the prior year.

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Revenues

(in thousands)	Three Months Ended February 28, 2022	2021	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 17,965	$ 18,255	$ (290)	(2)%
Bacterial & General Sanitation	11,288	10,335	953	9%
Culture Media & Other	18,145	16,094	2,051	13%
Rodenticides, Insecticides & Disinfectants	9,577	8,436	1,141	14%
Genomics Services	5,781	5,304	477	9%
	$ 62,756	$ 58,424	$ 4,332	7%
Animal Safety				
Life Sciences	$ 1,339	$ 1,399	$ (60)	(4)%
Veterinary Instruments & Disposables	17,047	12,494	4,553	36%
Animal Care & Other	9,449	8,873	576	6%
Rodenticides, Insecticides & Disinfectants	18,359	18,085	274	2%
Genomics Services	19,294	17,434	1,860	11%
	$ 65,488	$ 58,285	$ 7,203	12%
Total Revenues	$128,244	$116,709	$ 11,535	10%

(in thousands)	Nine Months Ended February 28, 2022	2021	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 59,397	$ 57,271	$ 2,126	4%
Bacterial & General Sanitation	34,709	31,502	3,207	10%
Culture Media & Other	56,136	42,480	13,656	32%
Rodenticides, Insecticides & Disinfectants	25,459	24,324	1,135	5%
Genomics Services	16,909	14,566	2,343	16%
	$192,610	$170,143	$ 22,467	13%
Animal Safety				
Life Sciences	$ 4,011	$ 4,122	$ (111)	(3)%
Veterinary Instruments & Disposables	47,956	34,843	13,113	38%
Animal Care & Other	29,517	25,902	3,615	14%
Rodenticides, Insecticides & Disinfectants	58,777	56,470	2,307	4%
Genomics Services	54,195	49,554	4,641	9%
	$194,456	$170,891	$ 23,565	14%
Total Revenues	$387,066	$341,034	$ 46,032	13%

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Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category decreased 2% for the three month period and increased 4% for the nine month period ended February 28, 2022, respectively, compared to the same periods in the prior year. In the third quarter, a 12% increase in sales of allergen test kits was offset by a 55% decline in sales of dairy drug residue test kits, as we are discontinuing sales of certain lower margin products; sales of natural toxins test kits decreased 1%. For the year to date, sales of allergen test kits rose 11% and natural toxins test kits sales increased 5%, partially offset by a 33% decline in the drug residue product line, as compared to the same period in the prior year.

Bacterial & General Sanitation – Revenues in this category increased 9% and 10% for the third quarter and for the year to date, compared to the same periods in the prior year. In the third quarter, sales of our AccuPoint® sanitation monitoring product line increased 16% aided by strong sales of our new reader. Sales of our Listeria Right Now™ product continued to gain market share with an increase of 13%, while sales of products to detect spoilage organisms in processed foods increased 4%.

Culture Media & Other – Sales in this category increased 13% in the quarter ended February 28, 2022 compared to the third quarter in the prior year; for the nine month period, sales increased 32%. Excluding sales from the December 2020 acquisition of Megazyme, which are reported in this category, sales increased 7% and 14% for the three and nine month periods, respectively. This category includes sales of veterinary instruments and other veterinary products at some of our international locations; these sales increased significantly over the prior year due to recovering markets and expanded market share. Sales of Neogen Culture Media products increased 11% in the third quarter as our new workflow, One Broth One Plate, continued to drive increased sales to commercial labs in the U.K. For the nine month period, Neogen Culture Media sales increased 18%, due to new business in the U.K. generated from our One Broth One Plate workflow; we also recorded a large domestic sale to a vaccine manufacturer in the first quarter of the current fiscal year.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 14% in the third quarter of fiscal 2022 compared to the same period a year ago, primarily due to the continued strength in sales of cleaners and disinfectants to Asia resulting from the African swine fever outbreak in that region increasing demand, and higher sales to a U.K.-based toll manufacturer. For the year to date, sales increased 5%.

Genomics Services – Sales of genomics services sold through our international Food Safety operations increased 9% and 16% for the three and nine month periods ended February 28, 2022, respectively. The increase in the third quarter resulted from overall strength at our labs in the U.K and Brazil as improved economic conditions in several markets have led to increased testing; our lab in China also contributed to the growth for the year to date period.

Animal Safety

Life Sciences – Sales in this category decreased 4% in the third quarter, compared to the same period in the prior year; for the year to date, the decrease in this product line was 3%. The decline in both periods was primarily due to the loss of hair testing business with a large U.S. commercial laboratory that moved to a different testing platform and a decrease in workplace drug testing.

Veterinary Instruments & Disposables – Revenues in this category increased 36% for the three month period ended February 28, 2022, led by a large increase in sales of veterinary instruments, including needles and syringes, resulting from recently won private label business; revenues increased 38% for the year to date.

Animal Care & Other – Sales of these products increased 6% and 14% in the three and nine month periods ended February 28, 2022, respectively; excluding the contribution of parasiticides from the September acquisition of CAPInnoVet, revenues in this category increased 1% in the third quarter and 11% year to date. For both periods, the growth in our vitamin injectables and antibiotics product lines were partially offset by a decline in sales of dairy supplies due to the June 2020 termination of an agreement under which we distributed these types of products for a large manufacturer of dairy equipment.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 2% for the three month period ended February 28, 2022. Insecticide sales rose 11% in the quarter, led by strong demand in the farm and home channels, and cleaners and disinfectants sales increased 2%. These increases were somewhat offset by a 5% decrease in rodenticide sales due to a difficult comparison resulting from strong sales in the prior year. Sales in this product category for the year to date period increased 4%, as compared to a year ago, for the same reasons.

Genomics Services – Sales in this category increased 11% and 9% in the third quarter and the year to date period, each compared to the prior year. The growth in both periods was led by increases in beef and sheep testing in Australia, due to improved market conditions and higher sample volumes from domestic dairy and beef cattle and poultry customers. Growth in both the three and nine month periods was partially offset by lower domestic companion animal revenues due to difficult prior year comparisons resulting from strong sales growth in those periods.

Gross Margin

Gross margin, expressed as a percentage of sales, was 44.8% in the third quarter of fiscal 2022 compared to 46.1% in the same quarter a year ago. The decline in gross margin percentage is the result of a 260 basis point decline in gross margin percentage in the Animal Safety segment; Food Safety gross margins remained constant compared to those in last year's third quarter, as a favorable product mix shift was offset by increased overhead costs. In the Animal Safety segment, the decline in gross margin percentage at the raw material line was the result of a mix shift resulting from lower sales of higher margin rodenticide products, due to a lessening of vole pressure across the domestic market, and a reduction in genomics service revenues in the domestic companion animal markets. Each of those product lines experienced significant growth in the prior year periods, resulting in difficult comparisons in the current year. Within each segment, higher raw material and freight costs, which resulted from continued supply chain disruptions and ongoing issues related to COVID-19 and its variants across most of our markets, put downward pressure on gross margins. The Company has taken pricing actions where appropriate in response to these cost increases. For the year to date, gross margin was 46.0% compared to 46.1% in the prior year, for the same reasons listed above.

Operating Expenses

Operating expenses were $51.0 million in the third quarter, compared to $38.1 million in the same quarter of the prior year, an increase of $12.9 million, or 34%. Legal, consulting and other professional fees totaling $10.6 million were incurred in the third quarter in conjunction with due diligence and negotiation of terms for our proposed business combination with 3M's Food Safety business, which was announced on December 14, 2021. Excluding costs related to the transaction, run rate operating expenses for the third quarter were $40.4 million, an increase of 6% compared to the prior year. For the nine month period ended February 28, 2022, operating expenses were $137.4 million, an increase of 33% compared to the prior year. Legal, consulting and other professional fees totaling $19.9 million have been incurred year to date in conjunction with due diligence and negotiation of terms for the proposed business combination with 3M's Food Safety business. Excluding the costs related to the transaction, run rate operating expenses year to date were $117.5 million, an increase of 14% compared to the prior year.

Sales and marketing expenses increased $2.8 million, or 15%, in the third quarter, primarily due to increases in personnel related expenses, the result of higher sales volumes and headcount. Additionally, travel, trade shows and other customer facing activities have continued to increase, the result of the easing of certain COVID-19 pandemic restrictions in a number of our markets. Shipping expenses increased 10% for the quarter and were up 19% for the year to date on increased volume and rates; for the year to date, sales and marketing expenses increased 19% compared to the same period last year.

General and administrative expense increased $9.9 million in the third quarter, primarily the result of $10.6 million in legal, consulting and other professional fees resulting from due diligence efforts and negotiation of terms relating to the proposed transaction with 3M referenced above. In the prior year third quarter, $2.3 million was incurred on strategic consulting, legal and other professional fees for an acquisition which we the Company was unsuccessful in completing. After adjusting for these acquisition expenses, third quarter run rate general and administrative expenses increased $1,532,000, or 12%. Year to date run rate general and administrative expenses rose $5.4 million, or 15%. For each comparative period, increases were the result of higher salaries and bonuses resulting from improved operating performance and additional senior management hires, amortization expenses from the Megazyme, CAPInnoVet and Delf (U.K.) acquisitions and higher depreciation and license fees relating to information technology infrastructure and software.

Research and development expense was $4.6 million in the third quarter, an increase of $325,000, or 8%, compared to the same period in the prior year. The increase was primarily the result of compensation and other personnel related increases and, for the three month period, incremental costs of personnel absorbed from the GVS acquisition in December 2021. For the year to date, research and development expenses increased 9% over the same period last year; the increases were the result of compensation and other personnel related increases, and the incremental costs of personnel absorbed from the Megazyme and GVS acquisitions. For each comparative period, these increases were somewhat offset by decreased outside service costs for new reader development, as these products were launched in the prior year.

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Operating Income

Operating income was $6.4 million in the third quarter of fiscal 2022, compared to $15.8 million in the same period of the prior year. Adjusting for $10.6 million in costs resulting from the proposed 3M transaction, operating income was $17.0 million for the third quarter. Year to date operating income was $40.6 million compared to $53.9 million in the prior year; excluding $19.9 million in 3M-related costs, operating income was $60.5 million.. Expressed as a percentage of sales, operating income was 5% for the third quarter and 10.5% for the year to date, compared to 13.5% and 15.8%, respectively, for the same periods in the prior year. Adjusting for the costs resulting from the proposed 3M transaction, operating income was 13.2% for the third quarter and 15.6% for the year to date.

Other Income

(dollars in thousands)	Three Months Ended February 28, 2022	Three Months Ended February 28, 2021	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Interest income (net of expense)	$ 314	$ 294	$ 741	$ 1,571
Foreign currency transactions	(185)	(118)	(170)	(374)
Insurance settlement	—	—	—	309
Legal settlement	—	—	—	(300)
LGS contingent consideration	—	111	(135)	111
Other	137	(84)	271	(109)
Total Other Income	$ 266	$ 203	$ 707	$ 1,208

The decrease in interest income in the nine month period of fiscal 2022, compared to the same period a year ago was the result of lower yields on our marketable securities balances. Other income or expense resulting from foreign currency transactions was the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate. In the second quarter of the current fiscal year, we recorded a charge of $135,000 for additional contingent consideration in the final payment to the former owner of Livestock Genomic Services.

Income Tax Expense

Income tax expense in the third quarter of fiscal 2022 was $1.2 million, an effective tax rate of 18.1%, compared to $2.6 million, an effective tax rate of 16.3%, in the same period of the prior year. For the year to date, income tax expense was $8.0 million, an effective rate of 19.3%, in fiscal 2022 and $10.0 million, an effective rate of 18.1%, in fiscal 2021. For each period, the primary difference between the statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; due to lower exercises in the third quarter of the current fiscal year, this benefit was $33,000, compared to $1,083,000 in the third quarter of the prior year. For the year to date, the benefit was $907,000 in fiscal 2022 compared to $2,564,000 in fiscal 2021. Additionally, we incurred a $548,000 charge to expense in the first quarter of this fiscal year, due to the U.K. enacting a higher tax rate effective in April 2023. Since our deferred tax balances in the U.K. are expected to reverse in the future at the higher tax rate, we were required to revalue them when the new rate was passed.

Net Income

Net income was $5.4 million in the third quarter of fiscal 2022, compared to $13.4 million in the same period in the prior year. The decline in earnings for the year to date was the result of $10.6 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 2% compared to the same period in the prior year. For the year to date, net income was $33.3 million, a decrease of 26% compared to $45.1 million in the prior year. The decline in earnings for year to date was the result of $19.9 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 8% year to date compared to the same period in the prior year. Nine month net income in fiscal 2022 was also negatively impacted by a higher effective tax rate.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $378.4 million at February 28, 2022, compared to $381.1 million at May 31, 2021. Approximately $47.6 million was generated from operations during the first nine months of fiscal 2022 and we spent $38.2 million on business acquisitions. Net cash proceeds of $7.8 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first nine months of fiscal 2022. We spent $11.9 million for property, equipment and other non-current assets in the first nine months of fiscal 2022.

Net accounts receivable balances were $93.0 million at February 28, 2022, an increase of $1.2 million, compared to $91.8 million at May 31, 2021. Days' sales outstanding, a measurement of the time it takes to collect receivables, were 64 days at February 28, 2022, compared to 66 days at May 31, 2021 and 65 days at February 28, 2021. 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 related to the pandemic.

Net inventory was $113.4 million at February 28, 2022, an increase of $12.7 million, compared to a May 31, 2021 balance of $100.7 million. The two acquisitions completed in the second quarter added approximately $2.0 million to our inventory balance. The higher inventory levels are reflective of the inflationary pressures on raw material costs. Additionally, we have been increasing inventory levels recently in an effort to reduce freight costs and prevent backorders, as shipments from vendors are taking longer and some suppliers are requiring higher minimum order levels due to their supply constraints.

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 February 28, 2022, along with available borrowings under our credit facility and cash expected to be generated from operations, will be sufficient to fund activities for the remainder of the current fiscal year. However, existing cash and borrowing capacity will be insufficient to meet cash requirements for our planned combination with the 3M Food Safety business, which is currently expected to close in the third quarter of calendar year 2022. The transaction will be funded by issuing common stock to 3M's shareholders and borrowing approximately $1 billion in cash under a financing agreement with JPMorgan Chase.

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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, Guatemalan quetzal, 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, Ireland, Italy, Brazil, Mexico, Guatemala, Argentina, Uruguay, Chile, China, India, Canada and Australia where the functional currency is the British pound sterling, euro, Brazilian real, Mexican peso, Guatemalan quetzal, Argentine peso, Uruguayan peso, Chilean peso, Chinese yuan, Indian rupee, Canadian dollar and Australian dollar, respectively. Our investments in foreign subsidiaries are considered long-term. As discussed in ITEM 1A. RISK FACTORS of our Annual Report on Form 10-K for the year ended May 31, 2021, our financial condition and results of operations could be adversely affected by currency fluctuations.

The following table sets forth the potential loss in future earnings or fair values, resulting from hypothetical changes in relevant market rates or prices:

Risk Category *(dollars in thousands)*	Hypothetical Change	February 28, 2022	Impact
Foreign Currency - Revenue	10% Decrease in exchange rates	$ 15,561	Earnings
Foreign Currency - Hedges	10% Decrease in exchange rates	1,973	Fair Value

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 February 28, 2022 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 February 28, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material pending legal proceedings, see Note 10 “Commitments and Contingencies” of the Notes to consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in the section captioned “Part I, Item 1A, Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021, except for the following risk factor, which has been added to reflect risks associated with current global conditions:

We are subject to risks relating to existing international operations and expansion into new geographical markets.

We focus on expanding sales globally as part of our overall growth strategy and expect sales from outside the United States to continue to represent a significant portion of our revenue. Neogen’s international operations are subject to general risks related to such operations, including:

- political, social and economic instability and disruptions, including social unrest, geopolitical tensions, currency, inflation and interest rate uncertainties;
- government export controls, economic sanctions, embargoes or trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- limitations on ownership and on repatriation or dividend of earnings;
- transportation delays and interruptions;
- labor unrest and current and changing regulatory environments;
- increased compliance costs, including costs associated with disclosure requirements and related due diligence;
- difficulties in staffing and managing multi-national operations;
- limitations on Neogen’s ability to enforce legal rights and remedies;
- access to or control of networks and confidential information due to local government controls and vulnerability of local networks to cyber risks; and
- fluctuations in foreign currency exchange rates.

If Neogen is unable to successfully manage the risks associated with expanding our global business or adequately manage operational risks of our existing international operations, these risks could have a material adverse effect on our growth strategy into new geographical markets, our reputation, our business, results of operations, financial condition and cash flows. In addition, the impact of such risks may be outside of Neogen’s control and could decrease our ability to sell products internationally, which could adversely affect our business, financial condition, results of operations or cash flows. For example, as a result of the ongoing military conflict between Russia and Ukraine and resulting heightened economic sanctions from the United States and the international community, Neogen has discontinued sales into Russia. The United States and other countries have imposed significant sanctions and could impose even wider sanctions and take other actions should the conflict further escalate. While it is difficult to anticipate the effect the sanctions announced to date may have on Neogen, any further sanctions imposed or actions taken by the United States or other countries, including any expansion of sanctions beyond Russia, could affect the global price and availability of raw materials, reduce our sales and earnings or otherwise have an adverse effect on our business and results of operations.

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Item 6. Exhibits

(a) Exhibit Index

2.1	Agreement and Plan of Merger, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation, Neogen Corporation and Nova RMT Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
2.2	Separation and Distribution Agreement, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
2.3	Asset Purchase Agreement, by and between 3M Company and Neogen Corporation, dated as of December 13, 2021 (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
3.1	Certificate of Amendment to Articles of Incorporation of Neogen Corporation filed on March 14, 2022 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Neogen Corporation on March 17, 2022).
10.1	Employee Matters Agreement, dated as of December 13, 2021, by and among Neogen Corporation, Garden SpinCo Corporation and 3M Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021).
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 – the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL 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.

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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: April 1, 2022

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

Dated: April 1, 2022

/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 February 28, 2022 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: April 1, 2022

/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 February 28, 2022 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: April 1, 2022

/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 February 28, 2022 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: April 1, 2022

/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.