NEOGEN CORPORATION











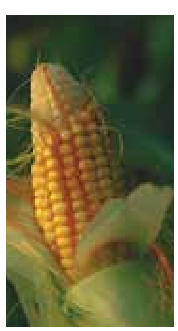


SERVING OUR GLOBAL COMMUNITY

2021 ANNUAL REPORT

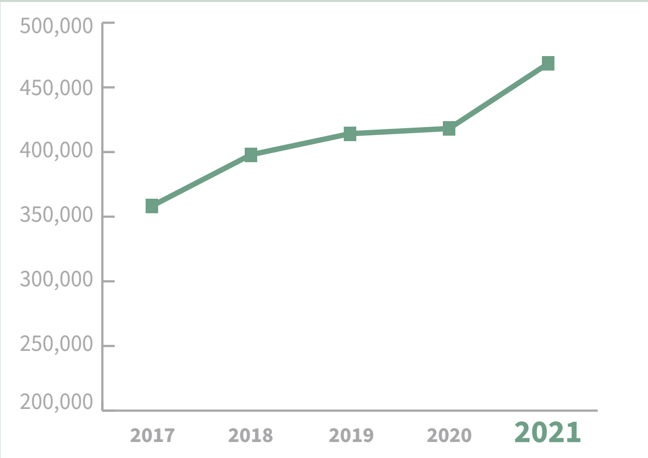




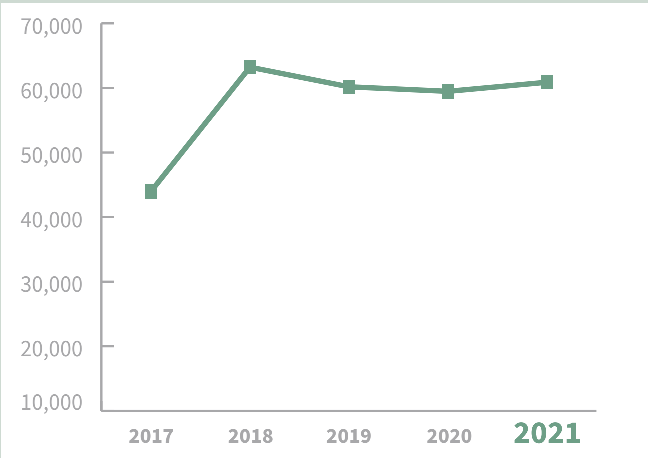




The ***mission*** *of Neogen Corporation is to be the leading company in the development and marketing of solutions for* ***food*** *and* ***animal*** *safety.*

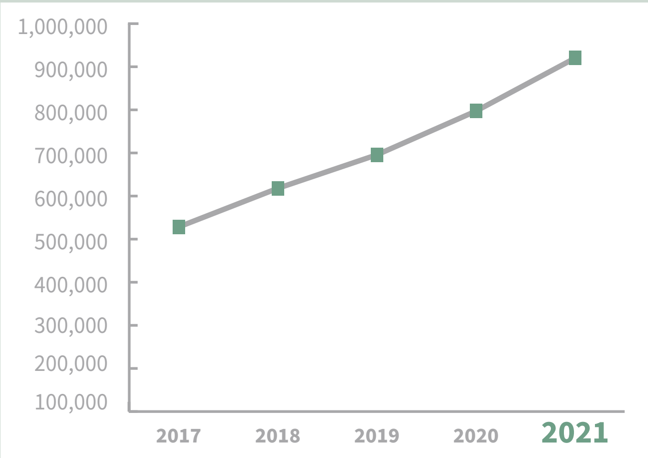
TOTAL REVENUES
Dollars in thousands



NET INCOME
Dollars in thousands



TOTAL ASSETS
Dollars in thousands



EQUITY
Dollars in thousands

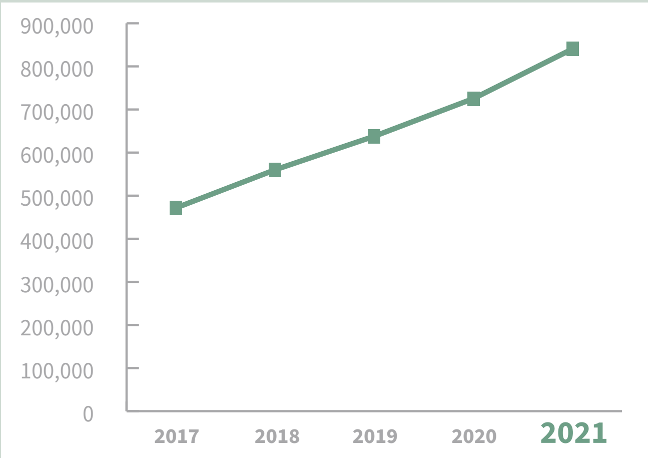


Table of Contents

Financial Highlights

Amounts in thousands, except per share

Year Ended May 31	2021	2020	2019	2018	2017
Operations:					
Total Revenues*	$ 468,459	$ 418,170	$ 414,186	$ 397,930	$ 358,277
Food Safety*	234,244	212,691	213,474	194,477	170,034
Animal Safety*	234,215	205,479	200,712	203,453	188,243
Operating Income	74,169	67,523	68,094	70,194	64,945
Net Income Attributable to Neogen	60,882	59,475	60,176	63,145	43,793
Basic Net Income Per Share**	$ 0.57	$ 0.57	$ 0.58	$ 0.62	$ 0.43
Diluted Net Income Per Share**	$ 0.57	$ 0.56	$ 0.57	$ 0.61	$ 0.43
Average Diluted Shares Outstanding**	107,120	105,720	104,850	104,298	102,330

* Revised 2017–2018
** Restated due to June 2021 and December 2017 stock splits

In thousands

Year Ended May 31	2021	2020	2019	2018	2017
Financial Strength:					
Cash and Marketable Securities	$ 381,087	$ 343,673	$ 267,524	$ 210,810	$ 143,635
Working Capital	537,852	488,917	411,278	337,101	256,959
Total Assets	920,192	797,182	695,740	618,009	528,409
Long-Term Debt	–	–	–	–	–
Equity	840,377	725,177	637,899	560,175	471,757

A MESSAGE FROM

JOHN **ADENT**, CEO

To Our Shareholders, Employees, and Friends,

Over the last 18 months, it seems that we've faced one unprecedented circumstance after another, constantly challenging all of us at Neogen to adapt our business practices and protect our colleagues around the world.

No matter what challenges Neogen has faced throughout the COVID-19 pandemic, we have remained dedicated to serving our global community. We recognize the essential role we play in protecting the global food supply and keeping people, animals, and food safe, especially during a global pandemic.

From farm to fork, Neogen is built to handle these challenges and provide solutions that make our global community a safer and more secure place.

Rallying Together

Over the last year, we have been put to the test in nearly every way possible, but our employees, partners, suppliers, and customers have all stepped up and shouldered the challenge. Amid the chaos, we've remained flexible, communicative, and innovative, producing solid results for Neogen.

Within our facilities across the world, we've had to adapt to new work environments. From home offices to socially distanced and masked production and lab environments, our team has rallied to support each other and accomplish our goals. Amid stay-at-home orders in countries around the world, members of our Neogen team implemented new business practices, all while continuing to create innovative new products and solutions. Our team has remained motivated and passionate about our mission to be the leading company in the development and marketing of solutions for food and animal safety, willing to go the extra mile through every up and down.

To help slow the spread of COVID-19, we ramped up the production of disinfectants and sanitizers, making them available outside of our traditional agricultural and veterinary markets. We were also able to launch several new products that serve as diagnostic and sanitization tools. In November 2020, we released our new COMPANION™ Foaming Hand Soap, which joined the trusted COMPANION product line as a personal biosecurity option. We also launched our Early Warning Wastewater Surveillance test for COVID-19, allowing for earlier detection of the virus before symptoms appear, allowing for earlier quarantine, which limits contact between infected and healthy individuals and slows the spread of the virus.

Our Marketing and Communications team undertook the mission of educating our customers on the necessity of proper sanitation. The team has worked diligently to promote our sanitizers, cleaners, disinfectants, and personal protective equipment, helping our customers to keep the members of their staff and their production areas safe from COVID-19.

Even amid the chaos of a global pandemic, our team was able to successfully launch two next-generation products — Soleris® Next Generation, a microbial testing system, and AccuPoint® Advanced Next Generation, an ATP sanitation monitoring system. This continued innovation, even in the face of such adversity, is a true testament to our commitment to providing our customers around the world the best solutions.

We also welcomed Ireland-based food diagnostics company Megazyme, Ltd. to the Neogen family in December 2020, helping us to strengthen and expand our relationships with the largest food producers around the world.

Our entire team of over 1,800 employees worldwide came together through video conferences, socially distanced meetings, phone calls, and emails to help Neogen not only achieve our goals, but to provide extra safety and security for people all around the world in the time when they needed it the most.

FY 2021 Results Are Strong

While we did not quite know what to expect when operating in the midst of a global health crisis, we are pleased to report strong financial results. For the 30th consecutive year, Neogen is reporting revenue increases as compared to the previous year, for which our entire team should be very proud.

Revenues for the company for our 2021 fiscal year were $468,459,000, compared to the prior year's $418,170,000, an increase of 12%. Net income for the 2021 fiscal year was $60,882,000, or $0.57 per share, compared to the prior year's $59,475,000, or $0.56 per share; per share amounts were adjusted to reflect our 2-for-1 stock split on June 4, 2021.

This accomplishment was not without its challenges, as the spread of COVID-19 continued to negatively impact our operating costs. Supply chain disruptions around the world resulted in significantly higher expenditures on freight, both inbound and outbound, and labor shortages led to increased personnel costs. We are actively monitoring these costs and have several plans in place to help mitigate their impact going forward.

Segment Highlights

Despite the challenges and uncertainty we have faced throughout the COVID-19 pandemic, we have seen strong growth across our segments in fiscal year 2021.

Our Food Safety segment recorded an increase of 10% over fiscal year 2020, demonstrating tremendous resiliency after many of our core product lines and markets were disrupted around the world. This success was led by strong sales of the Soleris® NG testing system, the continued growth of our ANSR® *Listeria* Right Now™ environmental test, and increases in sales of our key natural toxin and allergen test kits.

The Animal Safety segment rose 13% for the year, an impressive increase, as the prior year results included large sales of sanitizers, disinfectants, and personal protective equipment to help people around the world slow the spread of COVID-19. These revenue gains were driven by an increase in worldwide spending on companion animals, especially cats and dogs, as sales of our small animal supplements and antibiotics rose. We also saw strong sales of vitamin injectables and veterinary instruments, such as needles and syringes, as well as rodenticides, as rodent populations surged in much of the U.S. throughout the year.

Our worldwide genomics services recorded a 13% increase in revenue, led by the continued growth of companion animal sales. Our bovine testing services increased due to higher sales to beef associations and dairy artificial insemination companies, and we saw additional increases in the aquaculture market as we entered a new partnership with a large customer and launched a number of new tests.

Internationally, we also had a strong showing, with sales increasing by 11% over fiscal year 2020, despite COVID-19-related challenges throughout most of the year.

In the U.K., we saw an increase of 10%, led by sales of cleaners and disinfectants, including high sales of hand sanitizers to the U.K. government in the first quarter. Sales volumes in Brazil increased, propelled by higher sales of aflatoxin test kits for corn, culture media, bovine genomics services, and insect control products. Our China operations reported revenues that more than doubled for the year, as the continued sales of cleaners and disinfectants remained strong and sales of both bovine and swine genomics services increased, as breeders rebuilt their herds after the African swine fever outbreak. In Australia, we recorded revenue increases of 78% for the year, partially due to the acquisition of a Food Safety distributor in February 2020, but the team also posted impressive organic gains in both our Food Safety products and genomics services.

We benefitted from the December 2020 acquisition of Megazyme and, to a lesser extent, our July 2020 acquisition of the StandGuard® product line. However, excluding these sales, our organic growth for the year was a solid 9%.

Our New Normal

While we are beginning to see some relief due to the rollout of COVID-19 vaccines, we recognize that the pandemic remains a global issue and, as a global company, we remain vigilant, continually monitoring the spread of any variants and any lockdowns that may go into effect.

We eagerly await our “new normal” and stand ready for whatever comes our way. While we may never return to the “normal” we knew back in December 2019, we are looking forward to returning to in-person interactions as employees, traveling to our many locations, visiting farms and production plants around the globe, and inviting our shareholders, partners, suppliers, customers, and potential partners back into our buildings in fiscal 2022.

Our dedication to serving our global community is more important now than ever. As businesses and restaurants reopen and people venture back out into the world, we need to continue ensuring a safe and abundant food supply for all.

I have full faith that Neogen will continue to execute this mission and that we have the right products, services, and people to make it happen.

Thank you for your continued support.

John Adent
CEO and President

SERVING OUR GLOBAL COMMUNITY

Neogen Corporation plays an essential role in protecting the global food supply each and every day. We have made it our purpose to be involved in creating solutions for every step of the food chain, from farm to fork, that ensures the health and safety of people and animals around the world.

This is more important today than ever, as we emerge from a global health crisis. While we are weathering the storm that is the COVID-19 pandemic, we recognize that the ripple effects may last well into the future.

We remain well-positioned financially to withstand continued threats to our business as we continue providing solutions that keep people and animals around the world safe and healthy.

Our global community depends on us to ensure their food supply is plentiful and safe to eat. It is our responsibility to provide products and solutions that allow for every step of the food chain to be secure now and sustainable into the future. We continue to develop innovative new solutions that make it easier for those around the world to produce the highest-quality, safest products possible.

We offer solutions for every aspect of food production. From fast, reliable genomic solutions and analysis software that helps livestock producers make the most informed breeding decisions to advanced biosecurity products that reduce food waste, loss, and antibiotic use; from veterinary tools that make caring for animals easier and safer, to food safety assays that test for mycotoxins, allergens, pathogens, antibiotics, and spoilage microorganisms along the entire production process.

We are here to serve you, no matter where you are in the world, no matter which part of the food chain you serve, with our products and experts standing ready to help in any way that they can.

For Every Stage, From Genomics:

The abundance and security of our global food supply begin at the molecular level.

In our state-of-the-art genomics laboratories around the world, we can interpret the complex animal genome and return easy-to-understand identity and trait determination and analysis that help producers, breeders, and researchers make data-driven decisions.

With the help of our genomics solutions, producers can incorporate selective breeding practices, which allow breeders and producers to select the best animals with the most desirable traits, helping to ensure sustainable farming practices.

With laboratories across the world and the ability to serve beef and dairy cattle, pig, sheep, poultry, and aquatic species producers, Neogen Genomics offers an unmatched range of services that protect and improve our food chain at its earliest stages.

To Biosecurity:

The next step in ensuring food safety and security for our global community is providing solutions that prevent and mitigate the spread of disease and pests, protecting people, animals, and crops. After all, the best way to prevent an issue from arising within the global food supply is to prevent it from happening in the first place.

Neogen offers a comprehensive line of biosecurity products, ranging from cleaners and disinfectants to insect and rodent control solutions, that all work to prevent a disease outbreak before it starts.

Throughout the COVID-19 pandemic, our line of EPA-approved cleaners and disinfectants played a vital role in stopping the spread of disease within food and animal production facilities, veterinary clinics, and more, helping to keep workers, doctors, and animals safe and healthy. Designed with the highest-quality chemistries, our line of cleaners and disinfectants — including Neogen® Viroxide Super™, the BioSentry® and COMPANION™ product lines, Synergize®, Acid-A-Foam™ EVO, and Quik Clean — are able to tackle bacteria, fungi, and viruses, maintaining sanitary conditions and limiting potential hazards.

We also offer water treatment solutions, which maintain water quality within livestock production facilities, helping to ensure proper digestion and nutrient absorption, ensuring optimal growth and production while also eliminating waste.

Our safe and effective line of insect control solutions is available for a variety of locations, including the home, farm, and ranch. Insects can carry and transmit disease, contaminate stored food and feed, and can cause stress and health concerns in animals, so managing them in a proper way is an important part of protecting the global food supply. Our Prozap® product line, Surekill®, Catchmaster, and StandGuard® insect control solutions are available in a variety of application options for the utmost protection for beef and dairy cattle, poultry, and other production animals from flying and crawling pests.

As carriers of diseases, hosts to parasites, depositors of contaminants, and with the ability to thrive in small spaces, rodents are one of the biggest threats to the global food supply. Every year, rodent damage costs the agriculture industry millions of dollars worldwide, with damage to crops, stored food, and farm equipment. Our rodent control solutions are used to control and eradicate any rodent infestations before significant damage can be done. Our portfolio includes the globally trusted Ramik®, Havoc®, Cykill™, Rodex™, Prozap®, and DeciMax® solutions in several presentations, providing the best solution for every problem.

To Veterinary Care Products:

Another vital step in keeping our global community and food chain secure and safe is prevention. We produce trustworthy and dependable tools that help prevent illness and keep livestock, poultry, horses, and companion animals healthy.

Our Ideal® and Prima® lines of veterinary tools and over-the-counter products include surgical instruments, needles, syringes, reproductive and obstetrical instruments, personal protective equipment, and more.

Ideal's D3™ needles are stronger than conventional needles and are uniquely detectable by metal detectors at meat processing facilities. For more than 30 years, our wide range of quality, proven products have been trusted by livestock producers, veterinarians, and pet owners to keep their animals healthy.

Ensuring animal health extends further than just tools — we also offer a comprehensive line of solutions that keep animals safe and healthy, including antibiotics, diagnostic tools, vaccines, immunostimulants, injectables, oral supplements, vitamins and minerals, wound care, and other topical solutions.

We offer the only USDA-approved vaccine for the prevention of equine botulism Type B, BotVax® B, and our USDA-approved EqStim® immunostimulant is proven to help combat equine bacterial and viral respiratory infections.

Our Neogen® Vet pharmaceuticals include PanaKare™, a digestive aid in replacement therapy due to exocrine pancreatic insufficiency in dogs and cats; our recently reintroduced ThyroKare™, an FDA-approved replacement therapy for diminished thyroid function in dogs; and RenaKare™, a supplement for potassium deficiency in dogs and cats.

To Advanced Diagnostics and Testing:

Should prevention and mitigation efforts fail, having a fast and efficient testing system is vital to preventing an outbreak and keeping food and feed safe. From the smallest local grain operators to the largest, best-known food processors in the world and numerous regulatory agencies, we offer solutions for detecting potential hazards or unintended substances in their products.

Our Food Safety division develops and manufactures tests for:
Mycotoxins: We offer tests to detect the presence of mycotoxins, including aflatoxin, aflatoxin M_1, deoxynivalenol, fumonisin, ochratoxin, zearalenone, T-2/HT-2 toxin, and ergot alkaloids to ensure product safety and quality in food and animal feed. Grain producers and processors of all sizes take advantage of our Veratox®, Agri-Screen®, Reveal®, Reveal Q+, and Reveal Q+ MAX tests as part of their quality control practices.

Food allergens: Across the world, producers of cookies, crackers, candy, ice cream, and many other processed foods help protect their food-allergic customers from the inadvertent contamination of products with food allergens including, but not limited to, peanut, milk, egg, almond, gluten, soy, hazelnut, and coconut residues. We offer both quantitative — our Veratox® and BioKits product lines — and qualitative — Reveal, Reveal 3-D, and Alert® — testing options for fast and accurate results.

Dairy antibiotics: Dairy processors must test milk for veterinary antibiotics. The presence of these drugs above a certain level presents a public health hazard and an economic risk to producers, as it limits the milk's further processing. Our BetaStar® line of diagnostic tests detects harmful antibiotic contamination in milk, protecting both the producer and the consumer.

Foodborne pathogens: Meat, poultry, and seafood processors, fruit and vegetable producers, and many other market segments need to ensure the products they provide are safe, which requires them to test for harmful foodborne pathogens, including *E. coli* O157:H7, *Salmonella, Listeria*, and *Campylobacter*. Our Reveal tests provide rapid recovery and detection of pathogens, and our ANSR® pathogen detection system amplifies the DNA of harmful bacteria in food and environmental samples to detectable levels in 10 minutes. Our innovative *Listeria* Right Now™ test detects the pathogen in less than 60 minutes without sample enrichment.

Spoilage microorganisms: Yeast, mold, and other spoilage microorganisms threaten the safety and quality of food and other consumer products. In order to test for sterility, shelf-life, and the quality of raw materials and finished products, we offer our recently launched Soleris® Next Generation system. This system is used by food processors to detect specific microbiological contamination. The sensitivity of the system allows detection in a fraction of the time needed for traditional methods, with less labor and handling. Our NeoSeek™ genomics service also plays a role, utilizing a novel application of 16s metagenomics to determine the full array of potentially harmful bacteria in a sample.

Seafood contaminants: Maintaining acceptable levels of biotoxins, histamine, and sulfites within seafood and shellfish is a major responsibility of seafood and aquaculture processors. Our specialty products for the seafood market include tests for histamine, a highly allergenic substance that occurs when certain species of fish, including tuna, begin to decay, and sulfite, an effective but potentially allergenic shrimp preservative. Our Reveal lateral flow tests for shellfish toxins include rapid tests to detect the toxins that cause amnesic, diarrhetic, and paralytic shellfish poisoning.

Waterborne microorganisms: Water is essential to life, and keeping it clean is a critical part of the global food chain. We offer the food and beverage industries, including water companies, several platforms for performing the microbial analysis of water. These include our filter tests, which are a combination of Neogen Filter membrane filtration and Neogen Culture Media ampouled media, and our easy-to-use Colitag™ product. With Colitag, after an incubation period, the sample changes color in the presence of coliforms and fluoresces in the presence of *E. coli*.

Food quality diagnostics: Through the December 2020 acquisition of the Ireland-based company Megazyme, Neogen supplies analytical solutions used by quality control laboratories in the global food and beverage industries. Megazyme's diagnostic assay kits and reagents are used to measure dietary fiber, polysaccharides, and sugars and acids, such as lactose, and are used across grain and cereal products, as well as in the wine, dairy, and food industries.

Sanitation monitoring: Adenosine triphosphate (ATP) monitoring is considered the gold standard for sanitation monitoring in food and beverage production facilities, the food service industry, and the healthcare industry. Our newly launched AccuPoint® Advanced Next Generation rapid sanitation test detects the presence of ATP, a chemical found in all living cells, and utilizes bioluminescence to quickly determine if a surface is clean.

Our Food Safety division also offers:

Culture media: We seek to provide solutions that enhance the global food supply. Neogen Culture Media offers culture media and prepared media for varied purposes, including traditional bacterial testing and the growth of beneficial bacteria, such as cultures for sausages and beer.

Laboratory services: Neogen has worldwide operations serving our global community. Our ISO-accredited laboratories offer food safety analysis in the U.S., United Kingdom, and India, providing a number of fee-for-service tests for the food and feed industry.

Digital Services: Data, without a way to manage and analyze it, can be overwhelming and, when not managed properly, can lack effectiveness. Our new food safety and risk management software-as-a-service platform, Neogen Analytics, delivers the most comprehensive Environmental Monitoring Program automation solutions for food companies. The software reduces risk by increasing visibility to food safety testing results, enhancing the ability to enforce and improve food safety protocols. Neogen Analytics builds upon innovative technologies like our AccuPoint Advanced Next Generation and ANSR systems, offering color-coded floor plan mapping, smart test scheduling, easily filtered and auditable data management, and corrective actions.

All Around the World

In order to best serve our global community and provide solutions and products quickly, we maintain company-owned locations both domestically and internationally.

With nine locations in the United States, 16 international locations, and an extensive network of distributors to reach the countries in which we do not have a physical presence, Neogen is well-positioned to serve our markets in countries around the world, with sales in more than 140 countries in fiscal year 2021.

Serving in a Sustainable and Socially Responsible Way

All of us at Neogen pride ourselves on creating innovative products and solutions that help protect the global food chain and assist in building sustainable operations around the world.

Sustainability is critical to our mission of protecting the people and animals we care about and serving our global community responsibly.

Our products enable our customers around the world to be more efficient, compliant, and sustainable by providing biosecurity and environmental monitoring systems that assist in the management of harmful microbes, pests, and pathogens that cause disease, helping to reduce food waste and loss. Enabling a clean and healthy living environment reduces instance of disease in animals, which can decrease the use of antibiotics and, in turn, human resistance to medically important antibiotics. Through our genomics program, we help cultivate sustainable breeding and farming practices. Neogen products and services assist our customers in making their businesses more efficient, reducing waste, and increasing the sustainability of their businesses.

Our responsibility to serve our global community is not limited to the products we sell and the services we offer.

We also are committed to operating in a way that is responsible, socially conscious, and transparent. We know that our continued growth and the growth of the markets we serve depends on how we manage the impact we have on our world.

Operating in a sustainable manner is critical to our mission of protecting people and animals. Doing so benefits Neogen, our employees, customers, and shareholders.

In fiscal year 2021, we placed greater focus on disclosure of our Environmental, Social, and Governance (ESG) practices, embarking on a journey to codify principles and programs that make clear our commitment to our employees and our world.

As part of this program, we continue to lean on the Neogen Pillars of Trust — Openness, Honesty, Credibility, Respect, and Service — which form the platform that guides us in acting with the utmost integrity in all that we do.

We have articulated an Equity, Diversity, Inclusion, and Belonging (EDIB) strategy, which involves creating EDIB employee committees that facilitate sharing and working together to further EDIB initiatives and help us gain feedback regarding successes and growth opportunities. With this strategy and the commitment of our leadership team, we foster an inclusive and diverse environment throughout Neogen.

We also implemented a new Code of Business Conduct and Ethics and a Supplier Code of Conduct, which details and the responsibilities and expectations for our employees and directors, as well as partners and others with whom we do business.

Moving forward, we will expand upon these programs, assess and update current policies and guidelines, and will continue to hold ourselves accountable for the sustainability, diversity, and transparency of our operations.

Through these programs, we will strengthen not only Neogen but also the global community we serve.

Growing Together

For 39 years, Neogen has served our markets around the world, building a reputation of dependability, trust, and care at every step of the global food chain. We have achieved tremendous success by focusing on our customers and the numerous industries they represent, growing as they grow, and adapting to the ever-changing needs of our global community.

Our success, even in challenging times, is a direct reflection of the strength and diversity of our product portfolio and our dedicated employees. Our comprehensive solutions continue to drive us forward, and we are dedicated to protecting people, animals, and food around the world.

As we move forward, we know that we are built to serve our global community. Neogen will continue to innovate, creating products and offering services that make the world around us safer and more secure.

Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report.

In addition, any forward-looking statements represent management's views only as of the day our Annual Report on Form 10-K 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 we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our views change.

COVID-19

As we closely monitor the COVID-19 pandemic, our top priority remains protecting the health and safety of our employees, their families, and those in our communities. While essential operations continue in our locations around the world, many of our non-manufacturing employees continue to work remotely and travel remains limited. Safety guidelines and procedures, including social distancing 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 fiscal 2021, the COVID-19 pandemic continued to impact our business operations and financial results. There has been a positive impact in sales of our biosecurity product lines, as the pandemic has created increased demand for these products, and sales into companion animal markets have benefitted, as remote work and stay at home orders have driven increased pet ownership. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers' businesses, particularly those serving restaurants, bars and other institutional food service markets; supply chain difficulties including vendor disruptions, border closures and shipping issues; 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; higher spend on shipping, cleaning activities and personal protective equipment has somewhat offset these savings. We expect the COVID-19 pandemic will continue to impact our business operations and financial results through the majority of our 2022 fiscal year.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. 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 disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including but not limited to, those related to receivable allowances, inventories and 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. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policy reflects management's more significant judgments and estimates used in the preparation of the consolidated financial statements.

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. The determination of income subject to income tax in each tax paying jurisdiction requires us to apply transfer pricing guidelines for certain intercompany transactions.

Our tax rate is subject to adjustment over the balance of the year due to, among other things, income tax rate changes by governments; the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to our interpretation of transfer pricing standards; changes in available tax credits or other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws; and changes in U.S. generally accepted accounting principles.

Although we believe our tax estimates are reasonable and we prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any audit, and any related litigation, could be materially different from our estimates or from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on operating results and/or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, and/or interest assessments.

Our wholly owned foreign subsidiaries are comprised of Neogen Europe, Quat-Chem Ltd, Megazyme Ltd, Megazyme IP, Neogen Italia S.r.l., Neogen do Brasil, Rogama Industria e Comercio Ltda, Neogen Latinoamérica, Neogen Argentina, Neogen Uruguay, Neogen Chile SpA, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada and Neogen Australasia Pty Limited. Based on historical experience, as well as management's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. It is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

Results of Operations

Executive Overview

- Consolidated revenues were $468.5 million in fiscal 2021, an increase of 12% compared to $418.2 million in fiscal 2020. Organic sales overall increased 9% compared to the prior year.
- Food Safety segment sales were $234.2 million in fiscal 2021 compared to $212.7 million in fiscal 2020, an increase of 10%. Organic sales increased 6%, while the purchase of four former distributors and a small manufacturer (Abtek) in fiscal 2020 and the December 2020 acquisition of Megazyme contributed $8.0 million in revenues.
- Animal Safety segment sales were $234.2 million in fiscal 2021, an increase of 14% compared to $205.5 million in fiscal 2020. Organic sales rose 13%, with the acquisitions of Cell BioSciences, in fiscal 2020, and StandGuard, in July 2020, contributing the remainder of the growth.
- International sales were 39.1% of total sales in fiscal 2021 compared to 39.4% of total sales in fiscal 2020.
- Our effective tax rate was 19.1% in fiscal 2021 compared to an effective tax rate of 17.7% in fiscal 2020.
- Net income was $60.9 million, or $0.57 per diluted share, an increase of 2% compared to $59.5 million, or $0.56 per share, in the prior year.
- Cash generated from operating activities in fiscal 2021 was $81.2 million, compared to $85.9 million in fiscal 2020.

Neogen's international revenues were $183.2 million in fiscal 2021, compared to $164.7 million in fiscal 2020. Currency translation had a negligible impact on revenues for the full year, with gains in the U.K., Italy, China, Australia and Canada almost entirely offset by negative impact in Brazil, Mexico and Argentina. In a neutral currency environment, sales would have been $3.4 million higher than reported in the first nine months of fiscal 2021. However, the Brazilian real and Mexican peso strengthened significantly in the fourth quarter, resulting in an overall positive effect of approximately $3.3 million from currency translations; the full year impact from currency translations was minimal.

Sales results for fiscal 2021 compared to the prior year are as follows for each of our international locations:

	Revenue Change USD	Revenue Change Local Currency
UK Operations	10%	4%
Brazil Operations	(8%)	15%
Neogen Latinoamerica	9%	13%
Neogen China	101%	89%
Neogen India	4%	7%
Neogen Australasia	78%	61%
Neogen Canada	14%	9%

The revenue increase in U.S. dollars at Neogen Europe was led by a 22% increase in sales of disinfectant and veterinary products, primarily due to COVID-19 related sales of hand sanitizer and disinfectant in the U.K. in the first quarter and strong cleaner and disinfectant sales throughout the entire year to Asia to mitigate the impact of African Swine Fever. Partially offsetting this growth were lower sales of diagnostic test kits due to COVID-19 shutdowns; additionally, a large portion of sales into European Union countries from January through May were sold through our Neogen Italia subsidiary as Brexit created export issues from the U.K.

Revenues in Brazil decreased 8% in USD in fiscal 2021 but increased 15% in local currency, as the Brazilian real devalued significantly against the U.S. dollar during the year. In local currency, sales of our diagnostic test kits increased 10%, genomics revenues increased 19%, due to new business in the beef market, and insecticides revenues grew 22%, partially the result of a large tender sale.

Neogen Latinoamerica grew revenues by 9% in USD, with growth in biosecurity products, veterinary instruments and diagnostic test kits. China's sales approximately doubled, from growth in biosecurity products and genomics services. Neogen Australasia benefitted from the February 2020 acquisition of a food safety distributor; organic sales increased 59% at this location in fiscal 2021, from strength in genomics services for the companion animal and bovine markets and increased market share of food safety diagnostic test kits.

Service revenue, which consists primarily of genomics services sales to animal protein and companion animal markets, was $92.2 million in fiscal 2021, an increase of 12% over prior fiscal year sales of $82.6 million. The growth was led by increases in sample volumes from the global companion animal and commercial beef markets and the Chinese porcine market, as that country has begun recovery from its African swine fever outbreak.

Revenues

	Year Ended				
(Dollars in thousands)	May 31, 2021	Change	May 31, 2020	Change	May 31, 2019
Food Safety:					
Natural Toxins, Allergens & Drug Residues	$ 76,614	1%	$ 76,207	(3%)	$ 78,373
Bacterial & General Sanitation	44,009	5%	41,780	0%	41,966
Culture Media & Other	56,922	19%	47,847	(4%)	49,857
Rodenticides, Insecticides & Disinfectants	36,542	26%	28,890	13%	25,584
Genomics Services	20,157	12%	17,967	2%	17,694
	$ 234,244	10%	$ 212,691	0%	$ 213,474
Animal Safety:					
Life Sciences	5,715	(10%)	6,322	(20%)	7,858
Veterinary Instruments & Disposables	48,128	12%	42,941	(4%)	44,582
Animal Care & Other	35,897	26%	28,389	(5%)	29,941
Rodenticides, Insecticides & Disinfectants	77,458	13%	68,815	4%	66,389
Genomics Services	67,017	14%	59,012	14%	51,942
	$ 234,215	14%	$ 205,479	2%	$ 200,712
Total Revenue	$ 468,459	12%	$ 418,170	1%	$ 414,186

Year Ended May 31, 2021 Compared to Year Ended May 31, 2020

Food Safety:

The COVID-19 pandemic, which began in the second half of fiscal 2020, continued to cause difficult operating conditions in many of our key market segments in fiscal 2021. Shelter in place orders across the U.S. and in most of our international markets, the closure or reduced output of businesses due to quarantine and/or local legislation, disruption in the supply chain resulting from reduction in end-market demand and shipping issues, and the inability of some markets to react quickly to these changes, each disrupted our revenues.

Natural Toxins, Allergens & Drug Residues – Sales in this category increased 1% in fiscal 2021, with a 6% increase in sales of natural toxin test kits and a 5% increase in our allergens product line partially offset by a 30% decrease in sales of drug residue test kits. Sales of drug residue test kits have continued to decline as we ended an exclusive distributor agreement in Europe and faced competitive pressure and lower demand due to poor economic conditions.

Bacterial & General Sanitation – Sales in this category increased 5% in fiscal 2021 compared to the prior year. Sales of products to detect spoilage organisms in processed foods increased 19% in fiscal 2021, resulting from sales of our new instrument (Soleris NG), which launched in the first quarter, and increased consumables sales from new instrument placements. Sales of our AccuPoint sanitation monitoring product line were flat as many customers were shut down or operating at reduced capacity for a portion of the year, resulting in use of less consumables. A next generation reader for this product line was launched late in the fourth quarter; there will be significant sales and marketing focus on this product line in fiscal 2022. Sales of test kits to detect pathogens decreased 2%, as lower sales of ANSR equipment were only partially offset by increases from our *Listeria* Right Now test kit, which grew 21% in fiscal 2021.

Culture Media & Other – Sales in this category increased 19% in fiscal 2021 compared to fiscal 2020. Excluding sales from the December 2020 acquisition of Megazyme, sales increased 8%. This category includes sales of acquired inventory of non-Neogen manufactured products from our new businesses in Italy and the South American southern cone countries; these sales are not expected to continue long-term. Sales of Neogen Culture Media increased 1% as new business gained in the U.S. from a COVID-19 vaccine manufacturer offset the loss of some business due to competitor pricing.

Rodenticides, Insecticides & Disinfectants – Revenues of products in this category sold through our Food Safety operations increased 26% in fiscal 2021 compared to fiscal 2020, due primarily to continued strength in cleaners and disinfectant sales in China resulting from increased demand due to the African swine fever outbreak in that country and the COVID-19 pandemic. We also benefitted from strong sales of hand and skin sanitizing products at our U.K.-based Quat-Chem location in the first quarter of this fiscal year.

Genomics Services – Sales of genomics services sold through our Food Safety operations increased 12% in fiscal 2021 compared to the prior year, primarily due to higher sales in the Chinese porcine and bovine markets.

Animal Safety:

Life Sciences – Sales in this category decreased 10% in fiscal 2021 compared to the same period in the prior year, primarily the result of lower forensic drug test kit sales to large commercial labs in the U.S. as the COVID-19 pandemic created less demand for testing; a reduction in sales of products to the U.S. horse racing industry in the U.S. also contributed to the decline, as racing activity was down.

Veterinary Instruments & Disposables – Revenues in this category increased 12% in fiscal 2021 compared to fiscal 2020. Veterinary instruments sales increased 16% for the year, led by increases in detectable needles and syringes as we gained new customers and benefitted from increased demand resulting from higher numbers of production animals in existing markets. Partially offsetting this increase was a 9% decline in protective wear sales, as gloves were on backorder for much of the current year due to COVID related demand.

Animal Care & Other – Sales of these products increased 26% in fiscal 2021 compared to fiscal 2020; this category includes sales of food safety products sold through our Australian operation, the result of a February 2020 acquisition of a distributor. Excluding these sales, revenues in this category increased 21%. Sales of our small animal supplements, vitamin injectables, and joint pain products benefitted from growth in veterinary markets, as the COVID-19 pandemic has led to an increase in pet ownership, particularly dogs and cats. Additionally, sales rose for our equine supplements and antibiotics, due to strong demand in these markets. This category also includes sales of our thyroid treatment for dogs, which became available for sale late in the fourth quarter. Partially offsetting these gains was a 49% decline in sales of dairy supplies due to the June 2020 termination of an agreement in which we distributed these products for a large manufacturer of dairy equipment.

Rodenticides, Insecticides & Disinfectants – Sales in this category increased 13% in fiscal 2021, compared to the prior year. Rodenticide sales increased 42% as rodent pressure in certain areas of the U.S. increased significantly. Insecticide sales rose 15%, due in part to our acquisition of the StandGuard product line for fly control on July 31, 2020; organic sales in this category increased 7%. Cleaners and disinfectants sales decreased 15% resulting from lower sales of water treatment products and the transfer of a product line to our U.K. operation; additionally, opportunistic sales of sanitizing products in the fourth quarter of the prior year, due to extremely high demand early in the COVID-19 pandemic, did not continue at those levels in fiscal 2021.

Genomics Services – Sales in this category increased 14% in fiscal 2021 compared to fiscal 2020. The growth was led by strong increases to the U.S. and Australian companion animal markets, driven by increased pet adoption and higher consumer spending on pets during the COVID-19 pandemic. Gains in the commercial beef and beef association markets in the U.S., Canada and Australia also contributed to the growth, as well as the recent launch of a new high-density chip for white leg shrimp.

Year Ended May 31, 2020 Compared to Year Ended May 31, 2019

Food Safety:

The COVID-19 pandemic in the second half of fiscal 2020 resulted in difficult operating conditions in many of our key market segments. Shelter in place orders across the U.S. and in a number of our international markets, the closure or reduced output of businesses due to quarantine, disruption in the supply chain resulting from reduction in end-market demand, and the inability of some markets to react quickly to these changes, each adversely impacted our revenues.

Natural Toxins, Allergens & Drug Residues – Sales in this category were 3% lower in fiscal 2020 compared to the prior year, driven by a 30% decline in sales of drug residues test kits, due to lower demand from a large distributor in Europe. In January 2020, we ended our exclusive relationship with this distributor and have begun marketing these products directly into the European market. Partially offsetting the decrease in drug residue testing, the natural toxins and allergens product lines each increased 4% for the year. The natural toxin increase was due to continued new business earned in Brazil for aflatoxin and DON test kits, partially offset by lower sales of DON test kits in the U.S. and France, the result of mild outbreaks in the prior year which did not recur in fiscal 2020. The allergen test kit increase was primarily the result of strong gliadin, milk and coconut allergen test kit sales in the U.S. market, although fourth quarter sales declined 7% due to lower business with customers supplying restaurants and other food service organizations, which were adversely impacted by COVID-19.

Bacterial & General Sanitation – Sales in this category were essentially flat in fiscal 2020 compared to the prior year. Sales of test kits to detect pathogens decreased 2%, as lower sales of ANSR equipment were only partially offset by increases from our *Listeria* Right Now test kit, which grew 24% in fiscal 2020. Sales of our AccuPoint sanitation monitoring product line increased 6%, on increases in both readers and samplers. Sales of products to detect spoilage organisms in foods decreased 7% in fiscal 2020 on reduced sales of readers and consumable vials during the year, resulting from lower market demand and customer losses.

Culture Media & Other – Sales in this category decreased 4% in fiscal 2020 compared to fiscal 2019. This category includes forensic drug test kits sold within Brazil, which declined significantly as a large commercial lab customer in that country moved to an alternative new technology which provided higher throughput. Culture media revenues declined 5%, due to lower end market demand from several large customers in the U.S. Higher shipping revenues, which rose 12% for the year, and lower rebates offered to certain customers, both of which are reported in this category, partially offset the lower forensic and culture media revenues.

Rodenticides, Insecticides & Disinfectants – Revenues of products in this category sold through our Food Safety operations increased 13% in fiscal 2020 compared to fiscal 2019. This category was led by increases in sales of cleaners and disinfectants to customers in Europe, the Middle East and China, partially offset by a decrease in sales of rodenticides in Central America due to lower demand from a large distributor, and reduced demand of cleaners and disinfectants in India, due to a large order in 2019 which did not recur in fiscal 2020.

Genomics Services – Sales of genomics services sold through our Food Safety operations increased 2% in fiscal 2020 compared to the prior year, primarily due to higher sales in the European bovine and equine markets. Partially offsetting this increase were lower revenues from our genomics operation in Brazil due to a research project with the Brazilian government from 2019 which did not recur in fiscal 2020.

Animal Safety:

A significant proportion of the Animal Safety products are marketed and sold through our veterinary distributor network; this channel was impacted in both fiscal years 2019 and 2020, as difficult market conditions resulting from increased tariffs and political uncertainties in our agricultural and animal protein markets continued. The COVID-19 pandemic in the second half of fiscal 2020 has exacerbated these market conditions; further, the market uncertainty resulting from COVID-19 has caused our larger distributor partners to implement working capital improvement programs by lowering inventory levels which resulted in lower sales of many products in our animal health portfolio. Partially offsetting this weakness in the fourth quarter were higher sales of several of our cleaning and disinfecting products due to demand caused by the COVID-19 pandemic.

Life Sciences – Sales in this category decreased 20% in fiscal 2020 compared to the same period in the prior year, the result of lower forensic drug test kit sales to a large commercial lab in the U.S. serving the Brazilian market, a reduction in sales of products to the U.S. horse racing industry in the U.S. due to a decline in domestic racing activity, and the consolidation of several state laboratories.

Veterinary Instruments & Disposables – Revenues in this category decreased 4% in fiscal 2020 compared to fiscal 2019. Veterinary instruments sales were down 7% for the year, primarily the result of a 20% decline in needles and 3% decline in syringes, due to lower demand from our largest distributors. Partially offsetting these decreases, protective wear and consumables increased 24% for the year, on the strength of a $956,000 increase in gloves in the fourth quarter of fiscal 2020, the result of demand caused by the COVID-19 pandemic.

Animal Care & Other – Sales of these products decreased 5% in fiscal 2020 compared to fiscal 2019. Antibiotics and injectable vitamin products were down 20% and 15%, respectively, due primarily to inventory destocking at distributors. Sales of our biologics product line, marketed primarily into the equine market, declined 17%, and our equine supplements were also down 20%, due to lower demand from end customers in this market. Sales of wound care products rose 9% to partially offset these losses.

Rodenticides, Insecticides & Disinfectants – Sales in this category increased 4% in fiscal 2020, compared to the prior year. The increase was due primarily to a $2.6 million increase in sales of cleaners and disinfectants for the year, driven in large part by growth in hand sanitizers, disinfectants, and disinfecting wipes in the fourth quarter resulting from the COVID-19 pandemic. Revenues for water disinfection in animal protein production environments rose 8% over fiscal 2019. Rodenticide sales increased 1% over the prior year, as strong growth in the retail market was almost entirely offset by lower sales to agricultural markets in the northwest U.S., due to lower rodent pressure. Insecticide revenues declined 2% for the year.

Genomics Services – Sales in this category increased 14% in fiscal 2020, aided by the acquisition of Livestock Genetics (September 2018) and Delta Genomics (January 2019); organic growth in this category was 12%. Strong growth in the companion animal and commercial beef cattle markets was partially offset by revenue decreases in the U.S. commercial dairy market due to weak economic conditions in that market, resulting from a movement away from dairy milk towards alternative products.

Cost of Revenues

(Dollars in thousands)	2021	Change	2020	Change	2019
Cost of Revenues	$ 253,403	14%	$ 221,891	0%	$ 222,266

Cost of revenues increased 14% in fiscal 2021 compared to fiscal 2020 and was essentially flat in fiscal 2020 compared to fiscal 2019. This compares with revenue increases of 12% in fiscal 2021 and 1% in fiscal 2020. Expressed as a percentage of sales, cost of revenues was 54.1%, 53.1% and 53.7% in fiscal years 2021, 2020 and 2019, respectively. Gross margins were 45.9%, 46.9%, and 46.3% for fiscal years 2021, 2020, and 2019, respectively.

Fiscal 2021 – Our overall gross margin declined 100 basis points in fiscal 2021 as pressure on the worldwide supply chain caused by the COVID-19 pandemic resulted in increased overhead costs; in particular, freight costs on inventory purchases increased 53% in fiscal 2021 compared to the prior year. Additional cost increases resulted from personnel costs, in part from the increased volumes, but also due to labor shortages, contracted services primarily related to our recently launched instruments, and higher health insurance costs domestically, as employees and their families utilized elective medical services postponed from the fourth quarter of fiscal 2020 due to COVID-19. To a lesser extent, the shift in mix within the Food Safety segment towards products with lower gross margins negatively impacted the consolidated gross margin percentage.

Fiscal 2020 – Our overall gross margin improved 60 basis points in fiscal 2020, primarily from improved gross margin in the Animal Safety segment and improved efficiencies, resulting from a focus on cost reductions in certain areas. These efforts resulted in a slight decrease in cost of revenues compared to the prior fiscal year.

Food Safety Gross Margins:

Food Safety gross margins were 49.2%, 51.4% and 51.8% in fiscal years 2021, 2020 and 2019, respectively.

Fiscal 2021 – Food Safety margins decreased 220 basis points in fiscal 2021, primarily due to higher sales of equipment such as the Soleris NG, which was launched in the current year and has lower gross margins than our diagnostic test kits, and cleaners and disinfectants sold through our China location, which reports through the Food Safety segment. We were also negatively impacted by increased freight, labor and other overhead costs throughout the segment.

Fiscal 2020 – Food Safety margins decreased 40 basis points in fiscal 2020, primarily due to lower sales of higher margin forensic test kits in Brazil, and the continued strength of the U.S. dollar against currencies in the countries in which we operate; our international operations pay for their inventory primarily in U.S. dollars. In a neutral currency environment, Food Safety segment sales would have been $5.4 million higher in fiscal 2020.

Animal Safety Gross Margins:

Animal Safety gross margins were 42.6%, 42.3% and 40.6% in fiscal years 2021, 2020 and 2019, respectively.

Fiscal 2021 – Animal Safety gross margins increased by 30 basis points, primarily from strong sales of higher margin rodenticide and companion animal products and cost efficiencies; somewhat offsetting these gains, gross margin in this segment was negatively impacted by higher freight costs as rates to bring product into inventory rose significantly during the year, from both domestic and international sources.

Fiscal 2020 – Animal Safety gross margins increased by 170 basis points, driven by increased sales of higher margin disinfectant products, particularly in the fourth quarter of the year as a result of the COVID-19 pandemic, which caused heavy demand for our sanitizing products. In addition, a mix shift towards genomics services for the companion animal markets, which have higher gross margins within the genomics business, contributed to the improvement.

Operating Expenses

(Dollars in thousands)	2021	Change	2020	Change	2019
Sales and Marketing	$ 73,443	5%	$ 69,675	(1%)	$ 70,230
General and Administrative	51,197	15%	44,331	9%	40,791
Research and Development	16,247	10%	14,750	15%	12,805
Total Operating Expense	$ 140,887	9%	$ 128,756	4%	$ 123,826

Overall operating expenses increased by 9% in fiscal 2021 and 4% in fiscal 2020, each compared to the prior year. These increases compare to revenue increases of 12% and 1%, respectively, for each comparative period.

Sales and Marketing

Sales and marketing expenses increased by 5% in fiscal 2021 compared to fiscal 2020 and decreased 1% in fiscal 2020 compared to the prior year. As a percentage of sales, sales and marketing expense was 15.7%, 16.7% and 17.0% in fiscal years 2021, 2020 and 2019, respectively.

Fiscal 2021 – The $3.8 million, or 5%, increase in sales and marketing expenses in fiscal 2021 resulted primarily from increases in employee compensation expenses such as salaries, bonuses, and commissions, reflecting the increase in sales for the year, as well as increased headcount as we returned to normal staffing levels. In addition, shipping costs rose in line with revenues, health insurance costs rose as employees and their families resumed receiving medical treatment and procedures which had been deferred in the fourth quarter of the prior fiscal year. Advertising and outside services also increased to support the launch of a number of new products during the year, most notably the Soleris NG and Accupoint NG readers. Partially offsetting these increases was $3 million in decreased spending for travel and meals and entertainment for the year, the result of travel restrictions and reductions in face-to-face sales activities in most of our markets for the majority of the year. Travel and in person customer meetings did begin to pick up in some geographic areas in the second half of fiscal 2021 as COVID-19 restrictions were eased.

Fiscal 2020 – The $550,000 decline in sales and marketing expenses in fiscal 2020 was driven by a $1.3 million, or 7.4%, decline in spending in this category in the fourth quarter of the year, caused by a reduction in business travel, meals and entertainment, trade shows, and related marketing expenses, as the COVID-19 global pandemic resulted in strict travel restrictions and reductions in face to face sales activities in many of our markets during the quarter. Partially offsetting these declines were higher compensation and related fringe benefits, the result of increased headcount, increased shipping expenses, and higher regulatory expense due to product registration efforts in our international markets.

General and Administrative:

General and administrative expenses rose 15% in fiscal 2021 compared to fiscal 2020 and by 9% in fiscal 2020 compared to fiscal 2019. As a percentage of sales, general and administrative expense was 10.9%, 10.6% and 9.8% in fiscal years 2021, 2020 and 2019, respectively.

Fiscal 2021 – In fiscal 2021, we spent $3.1 million on strategic consulting, legal and other professional fees related to acquisition activity for businesses which we were ultimately not successful in acquiring. Excluding these costs, the increase in general and administrative expense in fiscal 2021 was 8%. Other increases in the current year included compensation increases due to increased headcount, including the addition of a number of senior management positions, incremental amortization expenses (non-cash) resulting from recent acquisitions, and higher levels of depreciation (non-cash) and related software and licensing costs from continued investments in information technology infrastructure and applications. Increases in this cost category resulting from the Megazyme acquisition totaled $957,000.

Fiscal 2020 – Higher stock-based compensation costs and a significant uptick in legal fees, driven in part from the number of acquisitions completed during the year, resulted in the overall 9% expense increase. In addition, the Company continued to invest in information technology infrastructure, network capabilities and e-commerce initiatives. This resulted in higher depreciation on IT-related hardware and increased license fees on software investments. These increases were somewhat offset by a reduction in outside consulting. General and administrative expenses at five new company locations, the result of acquisitions in the second half of fiscal 2020, totaled $520,000.

Research and Development:

Research and development expenses increased 10% in fiscal 2021 and 15% in fiscal 2020, each compared to the prior year. As a percentage of revenue, these expenses were 3.5% in fiscal year 2021, 3.5% in fiscal year 2020 and 3.1% in fiscal year 2019; we expect to spend between 3% and 4% of total revenue on research and development annually as we continue to make investments in our future growth.

Fiscal 2021 – The 10% increase in research and development expenses in fiscal 2021 was primarily the result of increased compensation expense, resulting from scheduled annual increases and additional headcount from the Megazyme acquisition, project expense relating to new product innovation, spending with outside partners on the new readers launched in this fiscal year, and testing and approval costs for new product development.

Fiscal 2020 – The 15% increase in research and development expenses in fiscal 2020 was primarily the result of continued spending with development partners for two new readers, launched in fiscal 2021. Increased compensation expense, resulting from investments in people as we heighten the development capabilities of the group, higher depreciation expense from continued investment in analytical equipment, and an increase in contracted services also contributed to the expense growth.

Operating Income

(Dollars in thousands)	2021	Change	2020	Change	2019
Operating Income	$ 74,169	10%	$ 67,523	(1%)	$ 68,094

Our operating income rose 10% in fiscal 2021 compared to fiscal 2020 and decreased by 1% in fiscal 2020 compared to fiscal 2019. Expressed as a percentage of revenues, operating income was 15.8%, 16.1% and 16.4% in fiscal years 2021, 2020 and 2019, respectively.

Gross margins rose by $18.8 million, or 10% in fiscal 2021; this increase was partially offset by an increase of $12.1 million, or 9%, in operating expenses, resulting in a $6.6 million, or 10%, increase in operating income compared to fiscal 2020.

Gross margins rose by $4.4 million in fiscal 2020; the increase was more than offset by an overall increase of $4.9 million, or 4.0%, in operating expenses, resulting in a 1% decrease in operating income compared to fiscal 2019.

Other Income (Expense)

Other Income (Expense) for the previous three fiscal years consisted of the following:

(Dollars in thousands)	2021	2020	2019
Interest income (net of expense)	$ 1,614	$ 5,992	$ 4,683
Foreign currency transactions	(541)	(1,178)	(1,279)
Royalty income	-	1	150
Licenses and settlements	9	(38)	672
Quat-Chem contingent consideration	-	-	422
Deoxi contingent consideration	-	-	(10)
Magiar contingent consideration	111	-	-
Livestock Genomics contingent consideration	37	-	-
Other	(131)	5	227
Total Other Income	$ 1,099	$ 4,782	$ 4,865

Interest income declined by $4.4 million in fiscal 2021 compared to fiscal 2020, despite higher cash and marketable securities balances, as yields on fixed income securities declined significantly during the year; the U.S. Federal Reserve intervened in markets to lower rates to stimulate the economy during the COVID-19 pandemic. Interest income rose in fiscal year 2020 compared to fiscal 2019, due to higher cash balances and rising interest rates during most of fiscal 2020. The loss from foreign currency translations in fiscal years 2021, 2020 and 2019 is primarily the result of the changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate; the dollar strengthened against most of these currencies in all three years.

In fiscal 2021, we received proceeds of $309,000 for a property loss settlement and recorded $300,000 of expense resulting from a legal settlement with a vendor. Additionally, adjustments to contingent consideration accruals resulted in $148,000 of income. In fiscal 2020, we took a charge to expense and recorded a reserve of $600,000 to provide for potential fines or penalties resulting from an administrative subpoena issued by the U.S. Treasury Department's Office of Foreign Asset Control. This was partially offset by a $483,000 gain resulting from a settlement with the Brazilian government related to sales taxes charged over several years, and proceeds received for a property loss settlement. In fiscal 2019, gains were recognized on insurance proceeds received for property loss settlements; additionally, adjustments were made to Quat-Chem and Deoxi contingent consideration amounts based on the level of achievement of revenue targets for the acquired businesses in that fiscal year.

Provision for Income Taxes

(Dollars in thousands)	2021	Change	2020	Change	2019
Provision for Income Taxes	$ 14,386	12%	$ 12,830	0%	$ 12,783

Income tax expense for fiscal 2021 was $14,386 million, an effective tax rate of 19.1%, compared to income tax expense of $12.8 million in 2020, an effective tax rate of 17.7%. For fiscal 2019, income tax expense of $12.8 million represented an effective tax rate of 17.5%.

Differences from the U. S. statutory rate of 21% to our effective rate are primarily due to provisions in the U.S. Tax Act and the exercise of stock options. Please refer to Note 6 to the consolidated financial statements for more information.

Net Income and Income Per Share

(Dollars in thousands—except per share data)	2021	Change	2020	Change	2019
Net Income	$ 60,882	2%	$ 59,475	(1%)	$ 60,176
Net Income Per Share—Basic	0.57		0.57		0.58
Net Income Per Share—Diluted	0.57		0.56		0.57

Net income increased 2% in fiscal 2021 compared to fiscal 2020, primarily due to the $6.7 million increase in operating income. The increase in operating income was partially offset by lower other income and higher tax expense for the year.

Net income decreased $701,000 in fiscal 2020 compared to fiscal 2019, primarily due to the $654,000 decrease in in pre-tax income.

Future Operating Results

Neogen Corporation's future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below as well as those discussed elsewhere in this report. Management's ability to grow the business in the future depends upon our ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities, and having those new products successfully accepted in the marketplace;
- expanding our markets by fostering increased use of our products by customers;
- maintaining or increasing gross and net operating margins in changing cost environments;
- strengthening operations and sales and marketing activities in geographies outside of the U.S.;
- developing and implementing new technology development strategies; and
- identifying and completing acquisitions that enhance existing product categories or create new products or services.

Financial Condition and Liquidity

On May 31, 2021, we had $75.6 million in cash and cash equivalents, $305.5 million in marketable securities, and net working capital of $537.9 million. For the year ended May 31, 2021, cash generated from operating activities was $81.2 million, compared to $85.9 million generated in fiscal 2020; proceeds from stock option exercises provided an additional $34.6 million of cash. For the same period, additions to property, equipment and other non-current assets were $26.7 million and business acquisitions used cash of $52.0 million. We have a financing agreement with a bank providing for an unsecured revolving line of credit of $15.0 million, which expires on November 30, 2023. There were no advances against this line of credit during fiscal years 2021, 2020 and 2019, and no balance outstanding at May 31, 2021 and 2020.

Net accounts receivable at May 31, 2021 were $91.8 million, compared to $84.7 million at May 31, 2020; the increase is primarily due to the increased sales in the fourth quarter of fiscal 2021 compared to the corresponding period a year ago. Our days sales outstanding, a measurement of the time it takes to collect receivables, improved to 66 days at May 31, 2021 compared to 68 days at May 31, 2020. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, although there has been some slowdown in collections, we have not experienced an appreciable increase in bad debt write offs.

Inventory balances were $100.7 million at May 31, 2021, an increase of $5.6 million, or 6%, compared to $95.1 million at May 31, 2020; excluding inventory from the Megazyme acquisition in December 2020, our inventory is flat compared to a year ago. While we took proactive measures over the last 18 months to ensure adequate supply of inventory during the COVID-19 pandemic, we have also continued to focus on improving inventory turns across the business.

Neogen has been consistently profitable and has generated strong cash flow from operations during each of the past three fiscal years. However, our cash on hand and current borrowing capacity may not be sufficient to meet our cash requirements to commercialize products currently under development or our future plans to acquire additional businesses, technology and products that fit within our strategic plan. Accordingly, we may be required, or may choose, to issue equity securities or enter into other financing arrangements for a portion of our future capital needs.

We are subject to certain legal and other proceedings in the normal course of business that have not had, and, in the opinion of management, are not expected to have, a material effect on our results of operations or financial position.

Contractual Obligations

As of May 31, 2021, we have the following contractual obligations due by period:

(Dollars in thousands)	Total	Less than one year	1–3 years	3–5 years	More than 5 years
Long-Term Debt	$ –	$ –	$ –	$ –	$ –
Operating Leases	2,574	1,313	1,219	42	–
Unconditional Purchase Obligations [1]	84,265	83,773	488	4	–
	$ 86,839	$ 85,086	$ 1,707	$ 46	$ –

[1] Unconditional purchase obligations are primarily purchase orders for future inventory and capital equipment purchases.

New Accounting Pronouncements

See discussion of any New Accounting Pronouncements in Note 1 to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Balance Sheets

ASSETS *(In thousands)*	May 31 2021	May 31 2020
Current Assets		
Cash and cash equivalents	$ 75,602	$ 66,269
Marketable securities	305,485	277,404
Accounts receivable, less allowance of $1,400 and $1,350 at May 31, 2021 and 2020, respectively	91,823	84,681
Inventories	100,701	95,053
Prepaid expenses and other current assets	17,840	13,999
Total Current Assets	591,451	537,406
Property and Equipment		
Land and improvements	7,783	5,456
Buildings and improvements	72,754	48,881
Machinery and equipment	108,194	90,351
Furniture and fixtures	6,270	4,324
Construction in progress	3,261	4,968
	198,262	153,980
Less accumulated depreciation	(97,809)	(75,309)
Net Property and Equipment	100,453	78,671
Other Assets		
Right of use assets	2,477	1,952
Goodwill	131,476	110,340
Other non-amortizable intangible assets	15,545	15,217
Amortizable intangible assets, net of accumulated amortization of $53,462 and $44,690 at May 31, 2021 and 2020, respectively	76,771	51,364
Other non-current assests	2,019	2,232
Total Other Assets	228,288	181,105
Total Assets	$ 920,192	$ 797,182

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY *(In thousands, except shares and per share)*	May 31 2021	May 31 2020
Current Liabilities		
Accounts payable	$ 23,900	$ 25,650
Accruals		
Accrued compensation	11,251	7,735
Income taxes	1,848	1,456
Other accruals	16,600	13,648
Total Current Liabilities	53,599	48,489
Deferred Income Taxes	21,917	18,125
Other Non-Current Liabilities	4,299	5,391
Total Liabilities	79,815	72,005
Commitments and Contingencies (Note 7)		
Stockholders' Equity		
Preferred stock, $1.00 par value – shares authorized 100,000; none issued and outstanding	–	–
Common stock, $0.16 par value — shares authorized 120,000,000; 107,468,304 and 105,891,682 shares issued and outstanding at May 31, 2021 and 2020, respectively	17,195	16,943
Additional paid-in capital	294,953	249,221
Accumulated other comprehensive loss	(11,375)	(19,709)
Retained earnings	539,604	478,722
Total Neogen Corporation and Subsidiaries Stockholders' Equity	840,377	725,177
Total Liabilities and Stockholders' Equity	$ 920,192	$ 797,182

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Income

REVENUES *(In thousands, except per share)*	Year Ended May 31 2021	2020	2019
Product revenues	$ 376,302	$ 335,539	$ 339,439
Service revenues	92,157	82,631	74,747
Total Revenues	468,459	418,170	414,186
Cost of Revenues			
Cost of product revenues	201,348	173,566	179,660
Cost of service revenues	52,055	48,325	42,606
Total Cost of Revenues	253,403	221,891	222,266
Gross Margin	215,056	196,279	191,920
Operating Expenses			
Sales and marketing	73,443	69,675	70,230
General and administrative	51,197	44,331	40,791
Research and development	16,247	14,750	12,805
Total Operating Expenses	140,887	128,756	123,826
Operating Income	74,169	67,523	68,094
Other Income			
Interest income, net	1,614	5,992	4,683
Royalty income	-	-	150
Other, net	(515)	(1,210)	32
Total Other Income	1,099	4,782	4,865
Income Before Income Taxes	75,268	72,305	72,959
Provision for Income Taxes	14,386	12,830	12,783
Net Income	60,882	59,475	60,176
Net Income per Share			
Basic	$ 0.57	$ 0.57	$ 0.58
Diluted	$ 0.57	$ 0.56	$ 0.57
Weighted Average Shares Outstanding			
Basic	106,499	105,100	103,776
Diluted	107,120	105,720	104,850

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended May 31 2021	2020	2019
Net Income	$ 60,882	$ 59,475	$ 60,176
Other comprehensive income (loss), net of tax: foreign currency translations	8,602	(8,495)	(1,894)
Other comprehensive income (loss), net of tax: unrealized gain on marketable securities	(268)	426	–
Comprehensive income	$ 69,216	$ 51,406	$ 58,282

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Equity

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
Balance, June 1, 2018	103,471,464	$ 16,555	$ 194,295	$ (9,746)	$ 359,071	$ 560,175
Exercise of options and share-based compensation expense	1,025,054	164	21,253	–	–	21,417
Issuance of shares under employee stock purchase plan	36,660	6	1,154	–	–	1,160
Shares repurchased	(100,000)	(16)	(3,119)	–	–	(3,135)
Net income for 2019	–	–	–	–	60,176	60,176
Other comprehensive loss	–	–	–	(1,894)	–	(1,894)
Balance, May 31, 2019	104,433,178	16,709	213,583	(11,640)	419,247	637,899
Exercise of options and share-based compensation expense	1,415,348	227	34,452	–	–	34,679
Issuance of shares under employee stock purchase plan	43,156	7	1,186	–	–	1,193
Net income for 2020	–	–	–		59,475	59,475
Other comprehensive loss	–	–	–	(8,069)	–	(8,069)
Balance, May 31, 2020	105,891,682	16,943	249,221	(19,709)	478,722	725,177
Exercise of options and share-based compensation expense	1,410,948	226	39,454	–	–	39,680
Issuance of shares under employee stock purchase plan	38,406	6	1,382	–	–	1,388
Issuance of shares for Megazyme acquisition	127,268	20	4,896	–	–	4,916
Net income for 2021	–	–	–	–	60,882	60,882
Other comprehensive gain	–	–	–	8,334	–	8,334
Balance, May 31, 2021	107,468,304	$ 17,195	$ 294,953	$ (11,375)	$ 539,604	$ 840,377

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Cash Flows

	Year ended May 31		
(In thousands)	2021	2020	2019
Cash Flows From Operating Activities			
Net income	$ 60,882	$ 59,475	$ 60,176
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	21,041	18,396	17,624
Deferred income taxes	(640)	1,601	1,197
Share-based compensation	6,437	6,468	5,543
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(2,595)	(2,881)	(4,025)
Inventories	2,450	(10,011)	(10,437)
Prepaid expenses and other assets	(3,386)	(1,017)	(3,569)
Accounts payable	(3,206)	6,745	(1,461)
Accruals and other changes	106	7,102	(1,206)
Net Cash From Operating Activities	81,089	85,878	63,842
Cash Flows Used For Investing Activities			
Purchases of property, equipment and other non-current intangible assets	(26,712)	(24,052)	(14,661)
Proceeds from the maturities of marketable securities	764,597	406,731	339,225
Purchases of marketable securities	(792,678)	(458,300)	(437,324)
Business acquisitions, net of cash acquired	(50,771)	(13,164)	(6,388)
Net Cash Used For Investing Activities	(105,564)	(88,785)	(119,148)
Cash Flows From Financing Activities			
Exercise of stock options and other	34,631	29,405	17,034
Payment of contingent consideration	(1,087)	–	–
Repurchase of common stock	–	–	(3,135)
Net Cash From Financing Activities	33,544	29,405	13,899
Effects of Foreign Exchange Rate on Cash	264	(1,917)	21
Net Increase (Decrease) In Cash and Cash Equivalents	9,333	24,581	(41,386)
Cash And Cash Equivalents, Beginning of Year	66,269	41,688	83,074
Cash And Cash Equivalents, End of Year	$ 75,602	$ 66,269	$ 41,688
Supplementary Cash Flow Information			
Income taxes paid, net of refunds	$ 14,966	$ 7,364	$ 13,027

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

Neogen Corporation develops, manufactures and markets a diverse line of products and services dedicated to food and animal safety.

Basis of Consolidation

The consolidated financial statements include the accounts of Neogen Corporation and its subsidiaries, all of which are wholly-owned as of May 31, 2021.

All intercompany accounts and transactions have been eliminated in consolidation.

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.

Functional Currency

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

Recently Adopted Accounting Standards

Financial Instruments - Credit Losses

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

Fair Value Measurements

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

Cloud Computing Implementation Cost

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

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, 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. 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.

Income Tax Simplification

In December 2019, the Financial Accounting Standards Board ("FASB") issued Update 2019-12, Income Taxes ("Topic 740") as part of its Simplification Initiative. 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. This guidance is effective for annual and interim reporting periods beginning after December 15, 2020, and early adoption is permitted. We plan to adopt during the first quarter of 2021, and we expect an immaterial impact to our consolidated financial statements.

Comprehensive Income

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

Changes in our Accumulated Other Comprehensive Income (Loss) ("AOCI") balances, net of tax, were as follows:

(In thousands)	Foreign Currency Translation Adjustments	Unrealized Gain on Marketable Securities	Total AOCI
Balance, May 31, 2019	$ (11,640)	$ -	$ (11,640)
Other comprehensive income (loss)	$ (8,495)	426	(8,069)
Balance, May 31, 2020	$ (20,135)	426	$ (19,709)
Other comprehensive income (loss)	8,602	(268)	8,334
Balance, May 31, 2021	$ (11,533)	$ 158	$ (11,375)

Fair Value of Financial Instruments

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

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

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. 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 $75,602,000 and $66,269,000 at May 31, 2021 and 2020, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy. Cash held by foreign subsidiaries was $15,246,000 and $13,060,000 at May 31, 2021 and 2020, respectively.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at May 31, 2021, consisting of short-term domestic certificates of deposit of $5,785,000 and commercial paper and corporate bonds rated at least A-1/P-1 (short-term) and A/A2 (long-term) with original maturities between 91 days and two years of $299,700,000. Total outstanding marketable securities at May 31, 2021 were $305,485,000; there were $277,404,000 in marketable securities outstanding at May 31, 2020. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable security investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable security portfolio. As these securities are highly rated and short-term in nature, they have very little credit risk; therefore, the Company does not believe a reserve for expected credit losses on marketable securities is material. 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 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 our consolidated statements of income. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of May 31, 2021 and 2020 are listed below by classification and remaining maturities.

(In thousands)	Maturity	May 31 2021	May 31 2020
U.S. Treasuries	0 – 90 days	$ –	$ –
	91 – 180 days	–	–
	181 days – 1 year	–	2,532
	1 – 2 years	–	–
Commercial Paper & Corporate Bonds	0 – 90 days	106,631	133,130
	91 – 180 days	78,727	73,824
	181 days – 1 year	87,590	43,231
	1 – 2 years	26,752	7,839
Certificates of Deposit	0 – 90 days	3,262	1,003
	91 – 180 days	1,260	5,184
	181 days – 1 year	1,263	6,069
	1 – 2 years	–	4,592
Total Marketable Securities		$ 305,485	$ 277,404

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

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasuries	$ –	$ –	$ –	$ –
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

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

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

Use of Estimates

The preparation of these consolidated 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. We believe that these estimates have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. 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. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results may differ from these estimates under different assumptions or conditions.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject Neogen to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit histories before extending credit and by monitoring credit exposure on a regular basis. Collateral or other security is generally not required for accounts receivable. We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts, management considers relevant information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. 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. No customer accounted for more than 10% of accounts receivable May 31, 2021 or 2020, respectively.

The activity in the allowance for doubtful accounts was as follows:

(In thousands)	May 31 2021	2020	2019
Beginning Balance	$ 1,350	$ 1,700	$ 1,550
Provision	239	393	263
Recoveries	139	49	38
Write-offs	(328)	(792)	(151)
Ending Balance	$ 1,400	$ 1,350	$ 1,700

Inventories

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

(In thousands)	May 31 2021	2020
Raw materials	$ 47,588	$ 45,058
Work-in-process	6,412	6,887
Finished goods	46,701	43,108
	$ 100,701	$ 95,053

The Company's inventories are analyzed for slow moving, expired and obsolete items on a quarterly basis and the valuation allowance is adjusted as required within cost of sales expense. The valuation allowance for inventory was $3,100,000 and $2,850,000 at May 31, 2021 and 2020, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to 39 years for buildings and improvements and three to ten years for furniture, fixtures, machinery and equipment. Depreciation expense was $13,288,000, $11,907,000 and $11,315,000 in fiscal years 2021, 2020 and 2019, respectively.

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. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis, generally over 5 to 25 years. Management reviews 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. In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to assessing the fair value of all of our reporting units and compare the fair value of the reporting unit to carrying value to determine if any impairment is necessary. Doing so does not preclude us from performing the qualitative assessment in any subsequent period. In the fourth quarter of fiscal 2021, we elected to bypass the qualitative approach that allows the assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and instead proceeded directly to assessing the fair value of all of our reporting units and comparing the fair values of the reporting units to the carrying values to determine if any impairment is necessary.

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 earnings multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations. No goodwill impairments were identified during the years ended May 31, 2021, 2020 and 2019, respectively. The remaining weighted-average amortization period for intangibles was 10 years and 9 years at May 31, 2021 and May 31, 2020, respectively.

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 are less than the carrying value of the asset. 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. No impairments of long-lived assets were identified during the years ended May 31, 2021, 2020 and 2019, respectively.

Reclassifications

Certain immaterial amounts in the fiscal 2020 and 2019 consolidated financial statements have been reclassified to conform with the fiscal 2021 presentation.

Equity Compensation Plans

At May 31, 2021, the Company had stock option plans which are described more fully in Note 5 to the consolidated financial statements.

We measure stock-based compensation at the grant date, based on the estimated fair value of the award, and recognize the cost (net of estimated forfeitures) as compensation expense on a straight-line basis over the requisite service period. Our stock-based compensation expense is reflected in general and administrative expense in our consolidated statements of income.

The weighted-average fair value per share of stock options granted during fiscal years 2021, 2020 and 2019, estimated on the date of grant using the Black-Scholes option pricing model, was $7.71, $7.78 and $7.46, respectively.

The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Year ended May 31		
	2021	2020	2019
Risk-free interest rate	0.2%	1.9%	2.6%
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock volatility	31.3%	29.4%	27.0%
Expected option life	3.25 years	3.5 years	3.5 years

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. We include recent historical experience in estimating our forfeitures. As employees terminate, grant tranches expire or as forfeitures are known, estimated expense is adjusted to actual. For options granted in fiscal years 2021, 2020 and 2019, the Company recorded charges in general and administrative expense based on the fair value of stock options using the straight-line method over the vesting period, generally five years.

The Company also issues restricted stock units (RSUs), which are described more fully in Note 5 to the consolidated financial statements. The RSUs generally vest over three to five years and have a weighted average value of $34.21 in fiscal 2021, which was the first year this type of award was issued.

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.

Our wholly-owned foreign subsidiaries are comprised of Neogen Europe, Quat-Chem Ltd, Megazyme Ltd, Megazyme IP, Neogen Italia S.r.l., Neogen do Brasil, Rogama Industria e Comercio Ltda, Neogen Latinoamérica, Neogen Argentina, Neogen Uruguay, Neogen Chile SpA, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, and Neogen Australasia Pty Limited. Based on historical experience, as well as management's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. It is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

Research and Development Costs

Research and development costs, which consist primarily of compensation costs, administrative expenses and new product development, among other items, are expensed as incurred.

Advertising Costs

Advertising costs are expensed within sales and marketing as incurred and totaled $1,687,000, $1,454,000 and $1,471,000 in fiscal years 2021, 2020 and 2019, respectively.

Net Income per Share

Basic net income per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding. Our dilutive potential common shares outstanding during the years result entirely from dilutive stock options. The following table presents the net income per share calculations:

	Year Ended May 31		
(In thousands, except per share)	2021	2020	2019
Numerator for basic and diluted net income per share – Net income	$ 60,882	$ 59,475	$ 60,176
Denominator for basic net income per share – Weighted average shares	106,499	105,100	103,776
Effect of dilutive stock options	621	620	1,074
Denominator for diluted net income per share	107,120	105,720	104,850
Net income per share			
Basic	$ 0.57	$ 0.57	$ 0.58
Diluted	$ 0.57	$ 0.56	$ 0.57

At May 31, 2021, no potential shares from option exercises were excluded from the computation of diluted net income per share, as the option exercise prices did not exceed the average market price of the common shares. At May 31, 2020, 56,000 potential shares were excluded from the computation. At May 31, 2019, 10,000 potential shares were excluded from the computation.

Leases

On June 1, 2019, we adopted Topic 842 using the prospective approach and did not retrospectively apply to prior periods. 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. Upon adoption of Topic 842, we recognized all leases with terms greater than 12 months in duration on our consolidated balance sheets as right-of-use assets and lease liabilities of approximately $2.0 million. 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. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessor have not significantly changed from previous U.S. GAAP.

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 of our leases are classified as operating leases. Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term. Our lease terms may include options to extend when it is reasonably certain that we will exercise that option.

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

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

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

(In thousands)	Year Ended May 31, 2021	Year Ended May 31, 2020
Right of use – assets	$ 2,477	$ 1,952
Lease liabilities – current	1,285	1,054
Lease liabilities – non-current	1,207	913

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

	May 31, 2021	May 31, 2020
Weighted average remaining lease term	2 years	2.5 years
Weighted average discount rate	2.0%	3.2%

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

(In thousands)	Year Ended May 31, 2021	Year Ended May 31, 2020
Operating leases	$ 1,352	$ 1,207
Short term leases	134	166
Total lease expense	$ 1,486	$ 1,373

Cash paid for amounts included in the measurement of lease liabilities for operating leases included in cash flows from operations on the statement of cash flows was approximately $1,397,000, $1,178,000 and $1,633,000 for the years ended May 31, 2021, 2020 and 2019, respectively. There were no non-cash additions to right-of-use assets obtained from new operating lease liabilities for the year ended May 31, 2021.

Maturities of operating lease liabilities as of May 31, 2021 are as follows:

(In thousands)	Amount
Years ending May 31, 2022	$ 1,313
2023	874
2024	345
2025	42
2026 and thereafter	–
Total lease payments	$ 2,574
Less: imputed interest	(82)
Total lease liabilities	$ 2,492

Revenue Recognition

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

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

Essentially all of Neogen's revenue is generated through contracts with its customers. A performance obligation is a promise in a contract to transfer a product or service to a customer. We generally recognized revenue at a point in time when all of our performance obligations under the terms of a contract are satisfied. Revenue is recognized upon transfer of control of promised products or 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; these expenses totaled $15,180,000, $13,514,000 and $13,503,000 in fiscal years 2021, 2020 and 2019, respectively. 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 primarily of shipments of:

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

Revenue for Neogen's 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 years ended May 31, 2021, 2020 and 2019:

	Year Ended May 31				
(Dollars in thousands)	2021	Change	2020	Change	2019
Food Safety:					
Natural Toxins, Allergens & Drug Residues	$ 76,614	1%	$ 76,207	(3%)	$ 78,373
Bacterial & General Sanitation	44,009	5%	41,780	0%	41,966
Culture Media & Other	56,922	19%	47,847	(4%)	49,857
Rodenticides, Insecticides & Disinfectants	36,542	26%	28,890	13%	25,584
Genomics Services	20,157	12%	17,967	2%	17,694
	$ 234,244	10%	212,691	0%	213,474
Animal Safety:					
Life Sciences	5,715	(10%)	6,322	(20%)	7,858
Veterinary Instruments & Disposables	48,128	12%	42,941	(4%)	44,582
Animal Care & Other	35,897	26%	28,389	(5%)	29,941
Rodenticides, Insecticides & Disinfectants	77,458	13%	68,815	4%	66,389
Genomics Services	67,017	14%	59,012	14%	51,942
	234,215	14%	205,479	2%	200,712
Total Revenue	$ 468,459	12%	$ 418,170	1%	$ 414,186

See Note 9 to the consolidated financial statements for disaggregated revenues by geographical location.

2. Goodwill and Other Intangible Assets

Management completed the annual impairment analysis of goodwill and intangible assets with indefinite lives using a quantitative assessment as of the first day of the fourth quarter of fiscal years 2021, 2020 and 2019, respectively, and determined that recorded amounts were not impaired and that no write-down was necessary.

The following table summarizes goodwill by reportable segment:

(In thousands)	Food Safety	Animal Safety	Total
Balance, May 31, 2019	$ 42,553	$ 61,066	$ 103,619
Goodwill acquired	6,254	2,095	8,349
Goodwill and/or currency adjustments [1]	(1,592)	(36)	(1,628)
Balance, May 31, 2020	47,215	63,125	110,340
Goodwill acquired	18,775	–	18,775
Goodwill and/or currency adjustments [1]	1,832	529	2,361
Balance, May 31, 2021	$ 67,822	$ 63,654	$ 131,476

[1] Includes final purchase price allocation adjustments and currency adjustments for goodwill recorded at international locations.

At May 31, 2021, non-amortizable intangible assets included licenses of $569,000, trademarks of $13,752,000 and other intangibles of $1,224,000. At May 31, 2020, non-amortizable intangible assets included licenses of $569,000, trademarks of $13,424,000 and other intangibles of $1,224,000.

Amortizable intangible assets consisted of the following and are included in customer-based intangibles and other non-current assets within the consolidated balance sheets:

(In thousands)	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Licenses	$ 16,913	$ 4,580	$ 12,333
Covenants not to compete	1,006	571	435
Patents	8,363	4,243	4,120
Customer-based intangibles	76,384	35,209	41,175
Other product and service-related intangibles	27,567	8,859	18,708
Balance, May 31, 2021	130,233	53,462	76,771
Licenses	10,346	3,330	7,016
Covenants not to compete	706	407	299
Patents	8,509	4,118	4,391
Customer-based intangibles	59,847	29,898	29,949
Other product and service-related intangibles	16,646	6,937	9,709
Balance, May 31, 2020	$ 96,054	$ 44,690	$ 51,364

Amortization expense for intangibles totaled $7,753,000, $6,489,000 and $6,309,000 in fiscal years 2021, 2020, and 2019, respectively. The estimated amortization expense for each of the five succeeding fiscal years is as follows: $8,331,000 in 2022, $7,639,000 in 2023, $7,335,000 in 2024, $7,007,000 in 2025 and $6,943,000 in 2026. The amortizable intangible assets useful lives are 2 to 20 years for licenses, 2 to 13 years for covenants not to compete, 5 to 25 years for patents, 5 to 20 years for customer-based intangibles and 5 to 20 years for other product and service-related intangibles, which primarily consist of product formulations. All definite-lived intangibles are amortized on a straight-line basis with the exception of definite-lived customer-based intangibles and product and service-related intangibles, which are amortized on either a straight-line or an accelerated basis.

3. 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 described below relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

Fiscal 2019

On August 1, 2018, the Company acquired all of the stock of Clarus Labs, Inc., a manufacturer of water testing products. Neogen has distributed Clarus' Colitag water test to the food and beverage industries since 2004; this acquisition has given the Company the ability to sell this product to new markets. Consideration for the purchase was $4,204,000 in cash and $1,256,000 of contingent consideration, due semiannually for the first five years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $32,000, machinery and equipment of $120,000, accounts payable of $53,000, contingent consideration accrual of $1,256,000, non-current deferred tax liability of $544,000, non-amortizable intangible assets of $878,000, intangible assets of $1,487,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. Since February 2019, $450,000 has been paid to the former owners as contingent consideration from the accrual. Manufacturing of these products was moved to the Company's Lansing, Michigan location in October 2018, reporting within the Food Safety segment.

On September 4, 2018, the Company acquired the assets of Livestock Genetic Services, LLC, a Virginia-based company that specializes in genetic evaluations and data management for cattle breeding organizations. Livestock Genetic Services had been a long-time strategic partner of Neogen and the acquisition enhanced the Company's in-house genetic evaluation capabilities. Consideration for the purchase was $1,100,000 in cash, with $700,000 paid at closing and $400,000 payable to the former owner on September 1, 2019, and up to $585,000 of contingent consideration, payable over the next three years. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included office equipment of $15,000, contingent consideration accrual of $385,000, intangible assets of $942,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. In September 2019, the former owner was paid the $400,000 installment of the purchase price owed and was also paid $107,000 in contingent consideration based on the achievement of sales targets in the first year. In November 2020, the former owner was paid $100,000 in contingent consideration based on the achievement of sales targets in the second year; the accrual was adjusted to the expected payment for the final year and, as a result, $37,000 was recorded as a gain in Other Income. Services provided by this operation are now performed at the Company's Lincoln, Nebraska location, reporting within the Animal Safety segment.

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

Fiscal 2020

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Argentina. This acquisition gives Neogen a direct sales presence in Argentina. Consideration for the purchase was $3,776,000 in net cash, with $3,237,000 paid at closing and $540,000 payable to the former owner on January 1, 2022, and up to $979,000 of contingent consideration, payable in one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $603,000, inventory of $446,000, machinery and equipment of $36,000, other current assets of $221,000, accounts payable of $383,000, other current liabilities of $312,000, contingent consideration accrual of $640,000, non-current deferred tax liabilities of $441,000, intangible assets of $1,471,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $530,000 of contingent consideration based on the achievement of sales targets; the remaining $110,000 accrued but not earned was recorded as a gain in Other Income in the third quarter of fiscal 2021. This operation continues to operate from its current location in Buenos Aires, Argentina, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Uruguay. This acquisition gives Neogen a direct sales presence in Uruguay. Consideration for the purchase was $1,488,000 in net cash, with $1,278,000 paid at closing and $210,000 payable to the former owner on January 1, 2022, and up to $241,000 in contingent consideration, payable in one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $280,000, inventory of $174,000, machinery and equipment of $16,000, other current assets of $68,000, accounts payable of $204,000, other current liabilities of $11,000, contingent consideration accrual of $159,000, non-current deferred tax liabilities of $99,000, intangible assets of $398,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $158,000 of contingent consideration based on the achievement of sales targets; the remaining $1,000 accrued but not earned was recorded as a gain in Other Income in the third quarter of fiscal 2021. This operation continues to operate from its current location in Montevideo, Uruguay, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

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

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

On February 28, 2020, the Company acquired the assets of Cell BioSciences, an Australian distributor of food safety and industrial microbiology products. This acquisition gives Neogen a direct sales presence across Australasia for its entire product portfolio. Consideration for the purchase was $3,768,000 in cash, with $3,596,000 paid at closing and $172,000 payable in one year. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $420,000, unearned revenue liability of $13,000, intangible assets of $1,338,000 (with an estimated life of 3 to 10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The final $172,000 owed was paid to the former owner in March 2021. The business operates in Gatton, Australia, reporting within the Australian operations in the Animal Safety segment.

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

Fiscal 2021

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 currently being toll manufactured for the Company but is eventually expected to be manufactured at Neogen's operation in Iowa; the sales are reported within the Animal Safety segment.

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 will allow 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 the next year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $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. 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 U.S. company's business is managed by our Lansing-based Food Safety team.

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

4. Long-Term Debt

The Company has a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which was amended in the second quarter to extend the expiration to November 30, 2023. There were no advances against the line of credit during fiscal years 2021 and 2020; there was no balance outstanding at May 31, 2021. Interest on any borrowings is LIBOR plus 100 basis points (rate under the terms of the agreement was 1.06% at May 31, 2021). See Note 1, Recent Accounting Pronouncements Not Yet Adopted, for information on reference rate reform. Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA; the Company believes it was in compliance with these covenants at May 31, 2021.

5. 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 were granted at an exercise price of not less than the fair market value of the stock on the date of grant. Remaining shares available for grant under stock option plans were 6,355,000, 7,002,000 and 7,994,000 at May 31, 2021, 2020 and 2019, respectively. Options vest ratably over three and five-year periods and the contractual terms are generally five or ten years.

(Options in thousands)	Options	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding at May 31, 2018 (1,016 exercisable)	4,998	$ 21.32	$ 5.72
Granted	1,054	31.46	7.46
Exercised	(1,026)	15.64	4.46
Forfeited	(256)	23.54	6.21
Outstanding at May 31, 2019 (1,234 exercisable)	4,770	24.69	6.35
Granted	1,124	31.96	7.78
Exercised	(1,438)	20.12	5.53
Forfeited	(132)	28.72	7.10
Outstanding at May 31, 2020 (972 exercisable)	4,324	27.98	6.98
Granted	403	34.23	7.71
Exercised	(1,389)	24.38	6.31
Forfeited	(381)	28.99	7.20
Outstanding at May 31, 2021 (643 exercisable)	2,957	$ 30.38	$ 7.36

The following is a summary of stock options outstanding at May 31, 2021:

(Options in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number	Average Contractual Life (in years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$10.75 – $20.00	54	3.1	$ 15.65	51	$ 15.45
$20.01 – $30.00	376	1.8	22.55	150	23.07
$30.01 – $31.50	1,150	2.1	30.87	299	30.76
$31.51 – $32.00	898	3.4	31.95	101	31.95
$32.01 – $35.28	479	4.1	34.07	42	33.53
	2,957	2.8	$ 30.38	643	$ 28.10

The weighted average exercise price of shares subject to options that were exercisable at May 31, 2020 and 2019 was $24.47 and $20.34, respectively.

Compensation expense related to share-based awards was $6,437,000, $6,468,000 and $5,543,000 in fiscal years 2021, 2020 and 2019, respectively. Remaining compensation cost to be expensed in future periods for non-vested options was $15,131,000 at May 31, 2021, with a weighted average expense recognition period of 3.1 years.

	Year Ended May 31		
(In thousands)	2021	2020	2019
Aggregate intrinsic value of options outstanding	$ 46,667	$ 32,988	$ 22,798
Aggregate intrinsic value of options exercisable	$ 11,617	$ 10,814	$ 10,222
Aggregate intrinsic value of options exercised	$ 22,349	$ 19,597	$ 21,382

The Company granted 118,250 restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan in October 2020, which vest ratably over three and five year periods. RSUs have a weighted average value of $34.21 per share and will be expensed straight-line over the remaining weighted-average period of 4.24 years. On May 31, 2021 there was $3,064,000 in unamortized compensation cost related to non-vested RSUs.

The Company offers eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of the 2011 Employee Stock Purchase Plan; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation. Shares purchased by employees through this program were 38,406 in fiscal 2021, 43,156 in fiscal 2020 and 36,660 in fiscal 2019. As of May 31, 2021, common stock totaling 649,228 of the 1,425,000 authorized shares remained reserved for issuance under the plan.

6. Income Taxes

Income before income taxes by source consists of the following amounts:

	Year Ended May 31		
(In thousands)	2021	2020	2019
U.S.	$ 55,753	$ 62,329	$ 58,479
Foreign	19,515	9,976	14,480
	$ 75,268	$ 72,305	$ 72,959

The provision for income taxes consists of the following:

	Year Ended May 31		
(In thousands)	2021	2020	2019
Current:			
Domestic			
Federal	$ 6,981	$ 6,886	$ 7,173
Change in tax-related uncertainties	(75)	269	13
State	2,147	1,262	1,265
Foreign	4,875	2,475	3,758
Deferred:			
Domestic			
Federal	479	1,964	1,031
State	44	195	98
Foreign	(65)	(221)	(555)
Provision for Income Taxes	$ 14,386	$ 12,830	$ 12,783

The reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense is as follows:

	Year Ended May 31		
(In thousands)	2021	2020	2019
Tax at U.S. statutory rate	$ 15,806	$ 15,184	$ 15,321
Permanent differences	292	360	(56)
Global intangible low-taxed income (GILTI)	2,064	438	840
Foreign derived intangible income deduction (FDII)	(1,210)	(1,120)	(1,531)
Foreign rate differential	669	(182)	495
Subpart F income	628	634	842
Tax benefits on stock-based compensation	(2,651)	(1,998)	(2,586)
Changes in tax contingencies - Increase/(Release)	(76)	269	13
Provision for state income taxes, net of federal benefit	1,601	1,412	1,251
Tax credits	(3,298)	(1,417)	(1,726)
Other	561	(750)	(80)
Income Tax Expense	$ 14,386	$ 12,830	$ 12,783

Foreign tax credits, primarily offsetting taxes associated with Subpart F and GILTI income, were $2,753,000, $945,000 and $1,296,000 in fiscal years 2021, 2020 and 2019, respectively. The Company's research and development credits were $545,000, $472,000 and $430,000 in fiscal years 2021, 2020 and 2019, respectively.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of our deferred income tax liabilities and assets are as follows:

	May 31	
(In thousands)	2021	2020
Deferred income tax liabilities		
Indefinite and long-lived assets	$ (25,072)	$ (20,867)
Prepaid expenses	(721)	(795)
	(25,793)	(21,662)
Deferred income tax assets		
Stock options	1,106	1,479
Inventories and accounts receivable	2,081	1,336
Tax loss carryforwards	662	484
Accrued expenses and other	568	657
Valuation allowance on tax loss carryforwards	(541)	(419)
	3,876	3,537
Net deferred income tax liabilities	$ (21,917)	$ (18,125)

The Company has the following net operating loss carryforwards:

(In thousands)	May 31, 2021	Expiry
U.S.	$ 345	2037 to indefinite
Foreign	1,938	2024 to 2039
	$ 2,283	

We are subject to income taxes in the U.S. (federal and state) and in numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The reconciliation of our tax-related uncertainties is as follows:

	May 31		
(In thousands)	2021	2020	2019
Beginning balance	$ 880	$ 611	$ 598
Increase/(decrease) related to prior periods	(272)	56	(106)
Increase to current period	197	213	119
Ending balance	$ 805	$ 880	$ 611

The Company is no longer subject to examination by the Internal Revenue Service for fiscal year 2017 and preceding years.

7. 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 May 31, 2021 and 2020, 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 sheet.

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 has agreements with unrelated third parties that provide for the payment of royalties on the sale of certain products. Royalty expense, recorded in sales and marketing, under the terms of these agreements was $2,129,000, $2,524,000 and $2,795,000 for fiscal years 2021, 2020 and 2019, respectively. Some of these agreements provide for guaranteed minimum royalty payments to be paid each fiscal year by the Company for certain technologies. Future minimum royalty payments are as follows: 2022—$115,000, 2023—$110,000, 2024—$110,000, 2025—$110,000 and 2026—$85,000.

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

8. Defined Contribution Benefit Plan

The Company maintains a defined contribution 401(k) benefit plan covering substantially all domestic employees. Employees are permitted to defer compensation up to IRS limits, with Neogen matching 100% of the first 3% of deferred compensation and 50% of the next 2% of deferred compensation. In the first quarter of fiscal 2021, the Company suspended the 401(k) match, while we assessed the potential financial impact of COVID-19 on the Company. The match was restored in September 2020. Neogen's expense under this plan was $1,204,000, $1,535,000, and $1,361,000 in fiscal years 2021, 2020 and 2019, respectively.

9. Segment Information

The Company has 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 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.

Neogen's international operations in the United Kingdom, Mexico, Brazil, China and India originally focused on the sales and marketing of our food safety products, and each of these units reports through the Food Safety segment. In recent years, these operations have expanded to offer the Company's 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 is as follows:

(In thousands)	Food Safety	Animal Safety	Corporate and Eliminations[1]	Total
Fiscal 2021				
Product revenues to external customers	$ 209,104	$ 167,198	$ –	$ 376,302
Service revenues to external customers	25,140	67,017	–	92,157
Total revenues to external customers	234,244	234,215	–	468,459
Operating income (loss)	33,725	48,685	(8,241)	74,169
Depreciation and amortization	11,575	9,466	–	21,041
Total assets	295,065	244,039	381,088	920,192
Expenditures for long-lived assets	13,730	12,982	–	26,712
Fiscal 2020				
Product revenues to external customers	$ 189,893	$ 145,646	$ –	$ 335,539
Service revenues to external customers	22,798	59,833	–	82,631
Total revenues to external customers	212,691	205,479	–	418,170
Operating income (loss)	33,526	39,051	(5,054)	67,523
Depreciation and amortization	10,173	8,223	–	18,396
Total assets	222,331	231,178	343,673	797,182
Expenditures for long-lived assets	15,867	8,185	–	24,052
Fiscal 2019				
Product revenues to external customers	$ 190,675	$ 148,764	$ –	$ 339,439
Service revenues to external customers	22,799	51,948	–	74,747
Total revenues to external customers	213,474	200,712	–	414,186
Operating income (loss)	39,020	33,875	(4,801)	68,094
Depreciation and amortization	9,525	8,099	–	17,624
Total assets	206,267	221,950	267,523	695,740
Expenditures for long-lived assets	8,916	5,745	–	14,661

[1] Includes corporate assets, including 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 and non-controlling interests.

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

	Year ended May 31	
(In thousands)	2021	2020
Domestic	$ 285,262	$ 253,458
International	183,197	164,712
Total revenue	$ 468,459	$ 418,170

10. Stock Repurchases

In October 2018, the Company's Board of Directors passed a resolution terminating the Company's prior stock buyback program, which had been approved in December 2008, and authorized a new program to purchase, subject to market conditions, up to 6,000,000 shares of the Company's common stock. In December 2018, the Company purchased 100,000 shares under the new program in open market transactions for a total price, including commissions, of $3,134,727. Shares acquired under the program were retired. A total of 5,900,000 shares of common stock remained available for repurchase under this program as of May 31, 2021.

11. Summary of Quarterly Data (Unaudited)

(In thousands, except per share)	Quarter Ended August 2020	November 2020	February 2021	May 2021
Total revenue	$ 109,325	$ 115,000	$ 116,709	$ 127,425
Gross margin	50,302	53,214	53,849	57,691
Net income	15,860	15,885	13,377	15,760
Basic net income per share	0.15	0.15	0.13	0.15
Diluted net income per share	0.15	0.15	0.12	0.15

	Quarter Ended August 2019	November 2019	February 2020	May 2020
Total revenue	$ 101,424	$ 107,803	$ 99,869	$ 109,074
Gross margin	48,194	51,026	45,330	51,729
Net income	14,652	16,276	12,200	16,347
Basic net income per share	0.14	0.15	0.12	0.15
Diluted net income per share	0.14	0.15	0.11	0.15

Quarterly net income per share is based on weighted-average shares outstanding and potentially dilutive stock options for the specific period and as a result, will not necessarily aggregate to total net income per share as computed for the year as disclosed in the consolidated statements of income.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Neogen Corporation
Lansing, Michigan

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Neogen Corporation (the "Company") as of May 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of May 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated July 30, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates it relates.

Evaluation of the Accounting for Income Taxes

As described in Notes 1 and 6 to the consolidated financial statements, the Company recorded income tax expense related to U.S. and Foreign tax paying jurisdictions totaling $14.39 million for the year ended May 31, 2021. International components of U.S. income taxes have a significant impact on total income tax expense including global intangible low-taxed income and Subpart F income representing $2.69 million of expense and foreign derived intangible income deduction and foreign tax credits which provide income tax benefit of $3.96 million. The Company's accounting for income taxes involves the application of tax regulations in each of the tax paying jurisdictions in which it operates. The determination of income subject to income tax in each tax paying jurisdiction requires management to apply transfer pricing guidelines for certain intercompany transactions. Additionally, the Company is entitled to claim foreign tax credits for taxes paid in international tax paying jurisdictions. Management's assumptions and allocations used in the determination of the foreign tax credits are based on current interpretations of complex income tax regulations and can have a material effect on the calculation of U.S. income taxes.

We identified the assumptions and allocations used to calculate international components of U.S. income taxes to be a critical audit matter. These assumptions and allocations include: (i) technical merit of tax positions including considerations related to transfer pricing guidelines for certain intercompany transactions, and (ii) allocation methodologies that are subjective in nature. Auditing these assumptions and allocations involved subjective auditor judgment due to the complexity and the extent of specialized knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Assessing the design and testing operating effectiveness of certain controls over the Company's income tax provision process, including controls over the identification and application of tax laws over earnings from multiple tax jurisdictions and the process to assess the technical merits of tax positions taken.
- Evaluating the reasonableness and appropriateness of the data used to develop the assumptions and allocations made by management against relevant evidence obtained in other areas of the audit.
- Utilizing professionals with specialized skills and knowledge in taxation to evaluate the Company's application of the applicable tax laws, the technical merit of tax positions taken, and the reasonableness of the Company's apportionment methodologies used.

BDO USA, LLP

We have served as the Company's auditor since 2014.
Grand Rapids, Michigan
July 30, 2021

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13-a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2021, based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that internal control over financial reporting was effective as of May 31, 2021. The effectiveness of internal control over financial reporting as of May 31, 2021 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included on the following page and is incorporated into this Item 9A by reference.

John E. Adent, President and CEO

Steven J. Quinlan, Vice President and CFO

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred during the quarter ended May 31, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Neogen Corporation
Lansing, Michigan
Opinion on Internal Control over Financial Reporting

We have audited Neogen Corporation's (the "Company's") internal control over financial reporting as of May 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of May 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2021, and the related notes and our report dated July 30, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

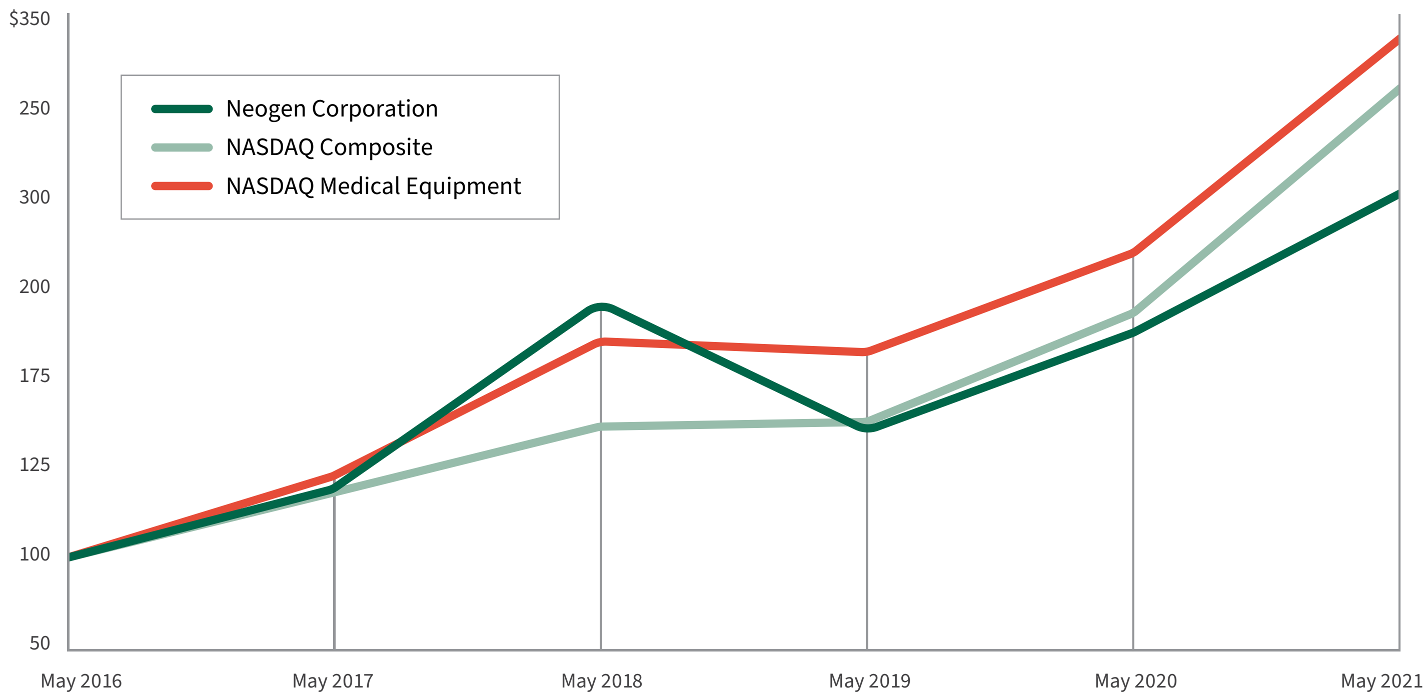
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BDO USA, LLP

Grand Rapids, Michigan
July 30, 2021

Neogen Corporation and Subsidiaries: Comparison of Five Year Cumulative Total Return and Stock Profile Activity

The graph below matches Neogen Corporation's cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 5/31/2016 to 5/31/2021.



	May 31					
	2016	2017	2018	2019	2020	2021
Neogen Corporation	$ 100.00	$ 128.20	$ 204.47	$ 152.18	$ 192.34	$ 249.30
NASDAQ Composite	100.00	126.75	153.80	155.70	200.33	292.39
NASDAQ Medical Equipment	100.00	133.48	188.69	184.23	224.92	312.79

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Market Information

Neogen Common Stock is traded on the NASDAQ Global Select Market under the symbol NEOG.

Holders

As of June 30, 2021, there were approximately 221 stockholders of record of Common Stock and management believes there are a total of approximately 10,000 beneficial holders.

Dividends

Neogen has never paid cash dividends on its Common Stock.

Officers

John E. Adent
President and Chief Executive Officer

Joseph A. Corbett
Vice President, Animal Safety Sales

Robert S. Donofrio, Ph.D.
Vice President, Research and Development

Shane M. Fitzwater
Vice President, Animal Safety Operations

Jerome L. Hagedorn
Vice President, North American Operations

Douglas E. Jones
Vice President, Chief Commercial Officer

Jason W. Lilly, Ph.D.
Vice President, International Business

Julie L. Mann
Vice President, Chief Human Resources Officer

Marylinn Munson
Vice President, Agrigenomics

Steven J. Quinlan
Vice President, Chief Financial Officer

Amy M. Rocklin, Ph.D.
Vice President, General Counsel and
Corporate Secretary

Directors

James C. Borel
Chairman of the Board
E.I.DuPont de Nemours
Former Executive Vice President

William T. Boehm, Ph.D.
Kroger Company
Former Senior Vice President
President's Council of Economic Advisors
Former Senior Economist

Ronald D. Green, Ph.D.
University of Nebraska–Lincoln
Chancellor

Ralph A. Rodriguez
Summit Partners
Executive-in-Residence

James P. Tobin
Monsanto
Former Vice President

Darci L. Vetter
Edelman
General Manager and Vice Chair for Food,
Agriculture and Trade
Former Chief Agricultural Negotiator for
the U.S. Trade Representative

Catherine E. Woteki, Ph.D.
Biocomplexity Institute at the University of Virginia
Distinguished Institute Professor
Former Undersecretary for the USDA's Research,
Education, and Economics Mission

Form 10-K and the Company's Code of Ethics

Copies of Form 10-K and the Company's Code of Ethics will be provided upon request without charge to persons directing their request to:

Neogen Corporation
Attention: Investor Relations
620 Lesher Place
Lansing, MI 48912

Annual Meeting

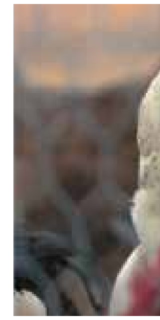
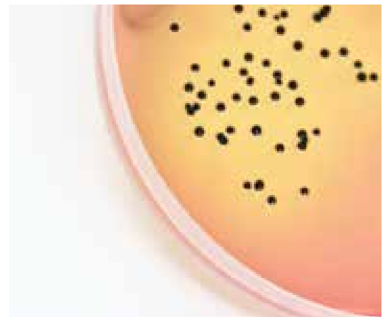
October 7, 2021 at 10:00 a.m.
www.virtualshareholdermeeting.com/NEOG2021

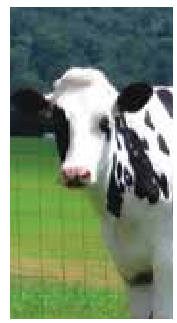
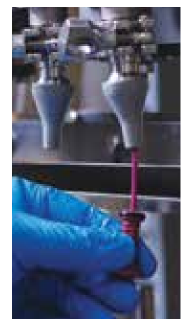
Independent Registered Public Accounting Firm

BDO USA, LLP
200 Ottawa Avenue N.W.
Suite 300
Grand Rapids, MI 49503

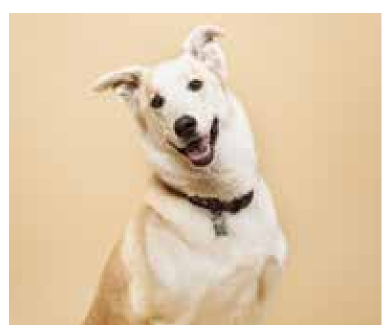
Stock Transfer Agent and Registrar

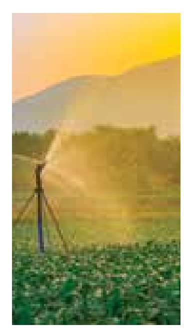
American Stock Transfer and Trust Co.
6201 15th Avenue
Brooklyn, NY 11219





NEOGEN® CORPORATION

NASDAQ: NEOG