

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

TECHNE CORP /MN/
Form 10-Q
February 05, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2007, or

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

For the transition period from _____ to _____

Commission file number 0-17272

TECHNE CORPORATION
(Exact name of registrant as specified in its charter)

MINNESOTA
(State or other jurisdiction
of incorporation or organization)

41-1427402
(I.R.S. Employer
Identification No.)

614 MCKINLEY PLACE N.E.
MINNEAPOLIS, MN 55413
(Address of principal
executive offices) (Zip Code)

(612) 379-8854
(Registrant's telephone number,
including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer,
an accelerated filer, or a non-accelerated filer. See definition of
"accelerated filer and large accelerated filer" in Rule 12b-2 of the
Securities Exchange Act.

Large accelerated filer (X) Accelerated filer () Non-accelerated filer ()

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

At February 4, 2008, 39,025,280 shares of the Company's Common Stock (par
value \$.01) were outstanding.

TECHNE CORPORATION

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

FORM 10-Q
DECEMBER 31, 2007

INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION

ITEM 1.	FINANCIAL STATEMENTS (unaudited)	
	Condensed Consolidated Balance Sheets as of December 31, 2007 and June 30, 2007	3
	Condensed Consolidated Statements of Earnings for the Quarter and Six Months Ended December 31, 2007 and 2006	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2007 and 2006	5
	Notes to Condensed Consolidated Financial Statements	6
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	17
ITEM 4.	CONTROLS AND PROCEDURES	17

PART II. OTHER INFORMATION

ITEM 1.	LEGAL PROCEEDINGS	18
ITEM 1A.	RISK FACTORS	18
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	18
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	18
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS	18
ITEM 5.	OTHER INFORMATION	18
ITEM 6.	EXHIBITS	18
	SIGNATURES	19

2

PART I. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

12/31/07 6/30/07

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

ASSETS		
Cash and cash equivalents	\$148,657	\$135,485
Short-term available-for-sale investments	40,139	29,289
Trade accounts receivable, net	29,273	29,559
Other receivables	1,465	1,407
Inventories	9,409	8,757
Deferred income taxes	7,986	7,446
Prepaid expenses	988	895
Total current assets	237,917	212,838
Available-for-sale investments	95,663	91,433
Property and equipment, net	94,478	91,535
Goodwill, net	25,068	25,068
Intangible assets, net	4,529	5,099
Deferred income taxes	4,665	4,362
Investments in unconsolidated entities	25,096	24,165
Other assets	797	344
	\$488,213	\$454,844
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 5,427	\$ 5,098
Salaries, wages and related accruals	5,094	6,013
Other accounts payable and accrued expenses	4,396	1,836
Income taxes payable	4,941	4,246
Total current liabilities	19,858	17,193
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 39,208,553 and 39,455,677, respectively	392	395
Additional paid-in capital	114,641	109,993
Retained earnings	340,426	314,339
Accumulated other comprehensive income	12,896	12,924
Total stockholders' equity	468,355	437,651
	\$488,213	\$454,844
	=====	=====

See notes to condensed consolidated financial statements.

3

TECHNE CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (in thousands, except per share data) (unaudited)

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Net sales	\$ 62,142	\$ 52,509	\$120,129	\$104,860
Cost of sales	12,751	10,714	24,855	21,951

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Gross margin	49,391	41,795	95,274	82,909
Operating expenses:				
Selling, general and administrative	10,645	8,830	18,735	15,897
Research and development	5,562	5,044	10,743	9,899
Amortization of intangible assets	282	404	570	807
Total operating expenses	16,489	14,278	30,048	26,603
Operating income	32,902	27,517	65,226	56,306
Other expense (income):				
Interest expense	--	815	--	1,083
Interest income	(3,252)	(1,956)	(6,250)	(3,632)
Other non-operating expense, net	573	428	1,142	913
Total other income	(2,679)	(713)	(5,108)	(1,636)
Earnings before income taxes	35,581	28,230	70,334	57,942
Income taxes	11,942	9,567	23,623	19,648
Net earnings	\$ 23,639	\$ 18,663	\$ 46,711	\$ 38,294
Earnings per share:				
Basic	\$ 0.60	\$ 0.47	\$ 1.18	\$ 0.97
Diluted	\$ 0.60	\$ 0.47	\$ 1.18	\$ 0.97
Weighted average common shares outstanding:				
Basic	39,395	39,387	39,442	39,383
Diluted	39,497	39,511	39,542	39,483

See notes to condensed consolidated financial statements.

4

TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	SIX MONTHS ENDED	
	12/31/07	12/30/06
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 46,711	\$ 38,294
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,383	3,386
Deferred income taxes	(844)	(551)
Stock-based compensation expense	1,586	1,229
Excess tax benefit from stock option exercises	(400)	(108)
Losses by equity method investees	493	373
Other	42	110
Change in operating assets and operating liabilities:		
Trade accounts and other receivables	697	1,291
Inventories	(971)	(290)
Prepaid expenses	(93)	25

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Trade, other accounts payable and accrued expenses	324	(640)
Salaries, wages and related accruals	561	147
Income taxes payable	1,172	(3,774)
	-----	-----
Net cash provided by operating activities	52,661	39,492
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(5,747)	(3,807)
Purchase of available-for-sale investments	(30,860)	(17,200)
Proceeds from sales of available-for-sale investments	11,475	3,119
Proceeds from maturities of available-for-sale investments	6,240	8,145
Increase in other assets	(498)	--
Increase in investments in unconsolidated entities	(1,423)	(7,200)
	-----	-----
Net cash used in investing activities	(20,813)	(16,943)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	2,585	530
Excess tax benefit from stock option exercises	400	108
Purchase of common stock for stock bonus plans	(1,494)	(1,222)
Repurchase and retirement of common stock	(19,607)	--
Payments on long-term debt	--	(13,427)
	-----	-----
Net cash used in financing activities	(18,116)	(14,011)
	-----	-----
Effect of exchange rate changes on cash	(560)	4,386
	-----	-----
Net increase in cash and cash equivalents	13,172	12,924
Cash and cash equivalents at beginning of period	135,485	89,634
	-----	-----
Cash and cash equivalents at end of period	\$148,657	\$102,558
	=====	=====

See notes to condensed consolidated financial statements.

5

TECHNE CORPORATION & SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

A. BASIS OF PRESENTATION:

The unaudited condensed consolidated financial statements of Techne Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 2007. The Company follows these policies in preparation of the interim unaudited condensed consolidated financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 2007 included in the Company's Annual Report to Shareholders for fiscal 2007.

Certain consolidated balance sheet captions appearing in this interim report are as follows (in thousands):

	12/31/07	6/30/07
	-----	-----
TRADE ACCOUNTS RECEIVABLE		
Trade accounts receivable	\$ 29,415	\$ 29,700
Less allowance for doubtful accounts	142	141
	-----	-----
NET TRADE ACCOUNTS RECEIVABLE	\$ 29,273	\$ 29,559
	=====	=====
INVENTORIES		
Raw materials	\$ 3,612	\$ 3,821
Supplies	114	125
Finished goods	5,683	4,811
	-----	-----
TOTAL INVENTORIES	\$ 9,409	\$ 8,757
	=====	=====
PROPERTY AND EQUIPMENT		
Land	\$ 4,214	\$ 4,214
Buildings and improvements	108,163	100,617
Building construction in progress	--	3,205
Laboratory equipment	21,793	20,657
Office equipment	4,665	4,407
Leasehold improvements	952	975
	-----	-----
	139,787	134,075
Less accumulated depreciation and amortization	45,309	42,540
	-----	-----
NET PROPERTY AND EQUIPMENT	\$ 94,478	\$ 91,535
	=====	=====

6

	12/31/07	6/30/07
	-----	-----
INTANGIBLE ASSETS		
Customer relationships	\$ 20,200	\$ 20,200
Technology	4,213	4,213
Trade names and trademarks	1,396	1,396
Supplier relationships	14	14
	-----	-----
	25,823	25,823
Less accumulated amortization	21,294	20,724
	-----	-----
NET INTANGIBLE ASSETS	\$ 4,529	\$ 5,099
	=====	=====
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustments	\$ 12,711	\$ 13,400
Unrealized gains (losses) on available-for-sale investments	185	(476)
	-----	-----
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME	\$ 12,896	\$ 12,924
	=====	=====

B. EARNINGS PER SHARE:

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Shares used in the earnings per share computations are as follows (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Weighted average common shares outstanding-basic	39,395	39,387	39,442	39,383
Dilutive effect of stock options and warrants	102	124	100	100
Weighted average common shares outstanding-diluted	39,497	39,511	39,542	39,483

The dilutive effect of stock options and warrants in the above table excludes all options for which the aggregate exercise proceeds exceeded the average market price for the period. The number of potentially dilutive option shares excluded from the calculation was 41,000 for both the quarter and six months ended December 31, 2007 and 7,000 and 37,000 for the quarter and six months ended December 31, 2006, respectively.

C. SEGMENT INFORMATION:

The Company has three reportable operating segments based on the nature of products and geographic location: biotechnology, R&D Systems Europe and hematology. The biotechnology segment consists of R&D Systems' Biotechnology Division, Fortron (through June 30, 2007 when it was merged into R&D Systems' Biotechnology Division), BiosPacific and R&D China, which develop, manufacture and sell biotechnology research and diagnostic products world-wide. R&D Systems Europe distributes Biotechnology Division products throughout Europe. The hematology segment develops and manufactures hematology controls and calibrators for sale world-wide.

7

Following is financial information relating to the Company's operating segments (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
External sales				
Biotechnology	\$ 39,143	\$ 33,426	\$ 78,024	\$ 69,348
R&D Systems Europe	19,027	15,257	34,476	28,184
Hematology	3,972	3,826	7,629	7,328
Total consolidated net sales	\$ 62,142	\$ 52,509	\$120,129	\$104,860
Earnings before income taxes				
Biotechnology	\$ 27,074	\$ 22,978	\$ 54,441	\$ 47,446
R&D Systems Europe	9,876	6,592	17,628	11,942
Hematology	1,140	1,145	2,010	2,052
Corporate and equity method investees	(2,509)	(2,485)	(3,745)	(3,498)
Total earnings before income taxes	\$ 35,581	\$ 28,230	\$ 70,334	\$ 57,942

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

=====

D. STOCK OPTIONS:

Option activity under the Company's stock option plans during the six months ended December 31, 2007 was as follows:

	SHARES (in 000'S)	WEIGHTED AVG. EXERCISE PRICE	WEIGHTED AVG. CONTRACTUAL LIFE (Yrs.)	AGGREGATE INTRINSIC VALUE
	-----	-----	-----	-----
Outstanding at June 30, 2007	423	\$43.29		
Granted	38	65.88		
Exercised	(75)	35.07		
Forfeited or expired	(1)	36.50		

Outstanding at December 31, 2007	385	\$47.13	5.6	\$7.3 million
	=====			
Exercisable at December 31, 2007	335	\$45.36	5.5	\$7.0 million
	=====			

The fair value of options granted under the Company's stock option plans were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used:

	QUARTER ENDED		SIX MONTHS ENDED	
	-----	-----	-----	-----
	12/31/07	12/31/06	12/31/07	12/31/06
	-----	-----	-----	-----
Dividend yield	--	--	--	--
Expected annualized volatility	46%	47%	24%-46%	31%-47%
Risk free interest rate	4.2%	4.7%	4.2%-4.6%	4.7%-5.1%
Expected life	8 years	8 years	7 years	7 years
Weighted average fair value of options granted	\$37.12	\$32.46	\$35.75	\$31.12

8

The Company has not paid cash dividends and does not have any plans to do so, therefore an expected dividend yield of zero was used to estimate fair value of options granted. The expected annualized volatility is based on the Company's historical stock price over a period equivalent to the expected life of the option granted. The risk-free interest rate is based on U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately in determining option fair value.

The total intrinsic value of options exercised during the quarter and six months ended December 31, 2007 was \$107,000 and \$2.0 million, respectively. The total intrinsic value of options exercised during the quarter and six months ended December 31, 2006 was \$199,000 and \$254,000, respectively. Stock option exercises are satisfied through the issuance of new shares. The total fair value of options vested during both the quarter and six months ended December 31, 2007 was \$1.5 million. The total fair value of options vested during the quarter and six months ended December 31, 2006 was \$1.3 million and \$1.4 million, respectively.

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Stock-based compensation cost of \$1.4 million and \$1.6 million was included in selling, general and administrative expense for the quarter and six months ended December 31, 2007, respectively. Stock-based compensation cost of \$1.1 million and \$1.2 million was included in selling, general and administrative expense for the quarter and six months ended December 31, 2006, respectively. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of December 31, 2007, there was \$576,000 of total unrecognized compensation cost related to nonvested stock options that will be expensed over fiscal years 2008 through 2010.

E. COMPREHENSIVE INCOME:

Comprehensive income and the components of other comprehensive income were as follows (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Net earnings	\$ 23,639	\$ 18,663	\$ 46,711	\$ 38,294
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(2,906)	3,645	(689)	4,451
Unrealized gain (loss) on available-for-sale investments	256	(55)	661	521
Comprehensive income	\$ 20,989	\$ 22,253	\$ 46,683	\$ 43,266

F. INCOME TAXES:

The Company adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on July 1, 2007. The adoption of FIN 48 did not result in a cumulative effect adjustment to retained earnings upon adoption. FIN 48 did not materially impact the consolidated financials statements for the quarter and six months ended December 31, 2007. At December 31, 2007, unrecognized tax benefits were \$154,000, including \$55,000 of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Accrued interest and penalties were not material at December 31, 2007.

The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease in the next twelve months. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The Company files income tax returns in the U.S. federal tax jurisdiction, the states of Minnesota and California, and several jurisdictions outside the U.S. U.S. tax returns for 2004 and subsequent years remain open to examination by the tax authorities. The Company's major non-U.S. tax jurisdictions are the United Kingdom, France and Germany, which have tax years open to exam for 2004 and subsequent years and China which has calendar year 2007 open to exam.

G. STOCK REPURCHASE:

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

In November 2007, the Board of Directors of the Company authorized the repurchase and retirement of \$150 million of common stock. During the quarter ended December 31, 2007, the Company repurchased and retired approximately 321,000 shares of common stock for approximately \$20.6 million. Included in other accounts payable at December 31, 2007 is \$1.0 million for shares repurchased prior to December 31, 2007 which settled after that date.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Quarter and Six Months Ended December
31, 2007 and the Quarter and Six Months Ended December 31, 2006

Overview

TECHNE Corporation and Subsidiaries (the Company) are engaged in the development, manufacture and sale of biotechnology products and hematology calibrators and controls. These activities are conducted domestically through its wholly-owned subsidiary, Research and Diagnostic Systems, Inc (R&D Systems). The Company's wholly-owned U.K. subsidiary, R&D Systems Europe Ltd. (R&D Europe) distributes R&D Systems' biotechnology products throughout Europe. R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France.

Through June 30, 2007, R&D Systems operated a subsidiary, Fortron Bio Science, Inc. (Fortron), a developer and manufacturer of monoclonal and polyclonal antibodies, antigens and other biological reagents. Subsequent to June 30, 2007, Fortron was merged into R&D Systems. A second R&D Systems subsidiary, BiosPacific, Inc. (BiosPacific), located in Emeryville, California, is a worldwide supplier of biologics to manufacturers of in vitro diagnostic systems and immunodiagnostic kits. In late fiscal 2007, R&D Systems established a subsidiary, R&D Systems China Co. Ltd. (R&D China), in Shanghai, China, to distribute biotechnology products throughout China. The Company began fulfilling orders for its third-party Chinese distributors from R&D China in August 2007.

The Company has three reportable operating segments based on the nature of products and geographic location: biotechnology, R&D Systems Europe and hematology. The biotechnology segment consists of R&D Systems' Biotechnology Division, Fortron (through June 30, 2007), BiosPacific and R&D China, which develop, manufacture and sell biotechnology research and diagnostic products world-wide. R&D Systems Europe distributes Biotechnology Division products throughout Europe. The hematology segment develops and manufactures hematology controls and calibrators for sale world-wide.

10

Overall Results

Consolidated net earnings increased 26.7% and 22.0% for the quarter and six months ended December 31, 2007, respectively, compared to the quarter and six months ended December 31, 2006. The primary reason for the increase in consolidated net earnings was increased consolidated net sales. Consolidated net sales for the quarter and six months ended December 31, 2007, increased 18.4% and 14.6%, respectively, from the same periods in the prior year. The favorable impact on consolidated net sales of the change from the prior year

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

in exchange rates used to convert R&D Europe results from British pound sterling to U.S. dollars was \$1.0 million and \$2.1 million for the quarter and six months ended December 31, 2007, respectively. The favorable impact on consolidated net earnings of the change from the prior year in exchange rates was \$339,000 and \$742,000 for the quarter and six months ended December 31, 2007, respectively. The Company generated cash of \$52.7 million from operating activities in the first six months of fiscal 2008, paid cash of \$19.6 million for the repurchase of common stock in the first six months of fiscal 2008 and had cash, cash equivalents and available-for-sale investments of \$284 million at December 31, 2007 compared to \$256 million at June 30, 2007.

Net Sales

Consolidated net sales for the quarter and six months ended December 31, 2007 were \$62.1 million and \$120.1 million, respectively, increases of \$9.6 million (18.4%) and \$15.3 million (14.6%) from the quarter and six months ended December 31, 2006. Biotechnology net sales increased \$5.7 million (17.1%) and \$8.7 million (12.5%), respectively, for the quarter and six months ended December 31, 2007. Approximately \$1.6 million and \$666,000 of the increase in biotechnology net sales for the quarter and six months ended December 31, 2007 was a result of increased volume and timing of shipments to diagnostic customers. The timing of shipments to diagnostic customer is not predictable and these sales increases are not necessarily indicative of future sales. Excluding sales to diagnostic customers, biotechnology net sales increased 12.9% and 12.3% for the quarter and six months ended December 31, 2007, respectively.

R&D Europe net sales increased \$3.8 million (24.7%) and \$6.3 million (22.3%) for the quarter and six months ended December 31, 2007. The effect of changes from the prior year in foreign currency exchange rates used to convert British pound sterling to U.S. dollars increased R&D Europe net sales approximately \$1.0 million and \$2.1 million for the quarter and six months ended December 31, 2007, respectively. In British pound sterling, R&D Europe net sales increased 18.5% and 14.8% for the quarter and six months ended December 31, 2007, respectively, mainly as a result of increased sales volume.

Hematology sales increase \$147,000 (3.8%) and \$301,000 (4.1%) for the quarter and six months ended December 31, 2007 as a result of increased sales volume.

The Company has target annual sales growth rates for each of its business segments. The target sales growth rates, which are based on historical sales growth, are 10%-12% for biotechnology, 7%-9% for R&D Europe (in constant currency) and 1%-2% for hematology. Based on the relative size of each segment, the consolidated target annual growth rate for fiscal 2008 is 8%-11% excluding the effect of changes in exchange rates. Due to the strong sales growth in the second quarter of fiscal 2008 and the Easter holiday falling in March 2008, the sales growth rate for the third quarter is expected to be below the second quarter growth rate.

11

Gross Margins

Gross margins, as a percentage of net sales, were as follows:

QUARTER ENDED		SIX MONTHS ENDED	
-----	-----	-----	-----
12/31/07	12/31/06	12/31/07	12/31/06
-----	-----	-----	-----

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Biotechnology	79.4%	80.8%	79.8%	80.2%
R&D Europe	56.4%	52.0%	55.6%	52.1%
Hematology	42.7%	43.9%	40.5%	42.1%
Consolidated gross margin	79.5%	79.6%	79.3%	79.1%

Consolidated gross margins, as a percentage of net sales, decreased slightly from 79.6% for the quarter ended December 31, 2006 to 79.5% for the quarter ended December 31, 2007 and increased slightly from 79.1% for the six months ended December 31, 2006 to 79.3% for the six months ended December 31, 2007. The decrease for the quarter was mainly the result of increased sales to diagnostic customers, which reduced biotechnology gross margins from 80.8% for the quarter ended December 31, 2006 to 79.4% for the quarter ended December 31, 2007. This decrease was partially offset by increased gross margins by R&D Europe for the quarter ended December 31, 2007 as a result of favorable exchange rates. The increase in gross margins for the six months ended December 31, 2007 as compared to the same prior-year period was a result of increased gross margins by R&D Europe as a result of favorable exchange rates and changes in sales mix as a result of higher sales growth in biotechnology and R&D Europe as compared to the sales growth in the lower margin hematology business.

The Company values its manufactured protein and antibody inventory based on a two-year forecast. Quantities in excess of the two-year forecast are considered impaired and are not included in the inventory value. Sales of previously impaired protein and antibody inventory for the quarter and six months ended December 31, 2007 and 2006 were not material.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter and six months ended December 31, 2007, increased \$1.8 million (20.6%) and \$2.8 million (17.9%), respectively, from the same periods of last year. Selling, general and administrative expenses are composed of the following (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Biotechnology	\$ 5,534	\$ 4,664	\$ 10,158	\$ 8,677
R&D Europe	2,599	2,405	4,861	4,425
Hematology	487	439	954	837
Corporate	2,025	1,322	2,762	1,958
Total selling, general and administrative expenses	\$ 10,645	\$ 8,830	\$ 18,735	\$ 15,897
	=====	=====	=====	=====

12

The increase from the comparable prior-year periods was the result of the following (in thousands):

	QUARTER INCREASE	SIX MONTHS INCREASE
Biotechnology:		
Additional profit sharing expense	\$ 295	\$ 481
China selling, general and administrative expense	144	244
R&D Europe:		
Change in exchange rates to convert British		

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

pounds to U.S dollars	116	283
Hematology:		
Additional profit sharing expense	36	55
Corporate:		
Additional professional fees	340	386
Additional stock expense	352	357

The increase in profit sharing expense for the quarter and six months ended December 31, 2007 was the result of the increased sales and earnings from the same prior-year periods. Operations in China were established in late fiscal 2007, resulting in increased expenses in fiscal 2008. The increase in professional fees and stock expense was due to additional legal fees and an increase in the number of stock options granted in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 as a result of expanding the Board of Directors by one member. The remainder of the increase in selling, general and administrative expenses for the quarter and six months ended December 31, 2007, was mainly the result of annual wage and salary increases and the hiring of additional marketing and administrative personnel.

Research and Development Expenses

Research and development expenses are composed of the following (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Biotechnology	\$ 5,368	\$ 4,854	\$ 10,370	\$ 9,529
Hematology	194	190	373	370
Total research and development expenses	\$ 5,562	\$ 5,044	\$ 10,743	\$ 9,899

Interest Expense

On October 31, 2006, the Company repaid its mortgage debt. Included in interest expense for the quarter ended December 31, 2006 was a prepayment penalty of \$651,000 and \$78,000 of unamortized loan origination fees.

Other Non-operating Expense and Income

Other non-operating expense and income consists mainly of foreign currency transaction gains and losses, rental income, building expenses related to rental property, and the Company's share of losses by equity method investees.

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
Foreign currency (gains) losses	\$ (153)	\$ (126)	\$ (317)	\$ 21
Rental income	(111)	(241)	(178)	(540)
Real estate taxes, depreciation and utilities	600	549	1,144	1,059
Hemerus Medical, LLC losses	113	123	244	250

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

Nephromics, LLC losses	124	123	249	123
	-----	-----	-----	-----
Total other non-operating expense	\$ 573	\$ 428	\$ 1,142	\$ 913
	=====	=====	=====	=====

The Company currently holds an 18% equity interest in Hemerus Medical, LLC (Hemerus) and at December 31, 2007, the Company's net investment in Hemerus was \$2.9 million. The Company accounts for its investment in Hemerus using the equity method of accounting because Hemerus is a limited liability company. The Company has financial exposure to the losses of Hemerus to the extent of its net investment in that entity. Hemerus' success is dependent, in part, upon its ability to raise financing and receiving Federal Drug Administration (FDA) clearance to market its products. If such financing or FDA clearance is not received, the Company would potentially recognize an impairment loss to the extent of its remaining net investment.

In fiscal 2007, the Company invested \$7.2 million for an 18% equity interest in Nephromics, LLC (Nephromics). The Company accounts for its investment in Nephromics using the equity method of accounting because Nephromics is a limited liability company. At December 31, 2007, the Company's net investment in Nephromics was \$6.5 million. The Company has financial exposure to any losses of Nephromics to the extent of its net investment in that entity.

Income Taxes

Income taxes for both the quarter and six months ended December 31, 2007 were provided at rates of 33.6% of consolidated earnings before income taxes compared to 33.9% of consolidated earnings before income taxes for both the quarter and six months ended December 31, 2006. U.S. federal taxes have been reduced by the credit for research and development expenditures, the benefit for extraterritorial income through December 2006 and the manufacturer's deduction available under the American Jobs Creation Act of 2004. Foreign income taxes have been provided at rates that approximate the tax rates in the countries in which R&D Europe and R&D China operate. Without significant business developments, the Company expects income tax rates for the remainder of fiscal 2008 to range from approximately 33.5% to 34.5%.

Liquidity and Capital Resources

At December 31, 2007, cash and cash equivalents and available-for-sale investments were \$284 million compared to \$256 million at June 30, 2007. The Company believes it can meet its future cash, working capital and capital addition requirements through currently available funds, cash generated from operations and maturities of available-for-sale investments. The Company has an unsecured line of credit of \$750,000. The interest rate on the line of credit is at prime. There were no borrowings on the line in the prior or current fiscal year.

Cash Flows From Operating Activities

The Company generated cash of \$52.7 million from operating activities in the first six months of fiscal 2008 compared to \$39.5 million in the first six months of fiscal 2007. The increase from the prior year was primarily due to an increase in consolidated net earnings in the current year of \$8.4 million and the change in consolidated income taxes payable during the six months ended December 31, 2007 compared to the same prior-year period. Income taxes payable increased during the six months ended December 31, 2007 mainly as a result of increased income taxes currently payable of \$3.7 million and a reduction of \$674,000 in deposits made from the same prior-year period.

Cash Flows From Investing Activities

Capital expenditures for fixed assets for the first six months of fiscal 2008 and 2007 were \$5.7 million and \$3.8 million, respectively. Included in capital expenditures for the first six months of fiscal 2008 and 2007 were \$4.3 million and \$2.4 million, respectively, for building renovation and construction. The remaining capital additions in the first six months of fiscal 2008 and 2007 were for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2008 are expected to be approximately \$2.4 million and are expected to be financed through currently available funds and cash generated from operating activities.

During the six months ended December 31, 2007, the Company purchased \$30.9 million and had sales or maturities of \$17.7 million of available-for-sale investments. During the six months ended December 31, 2006, the Company purchased \$17.2 million and had sales or maturities of \$11.3 million of available-for-sale investment. The Company's investment policy is to place excess cash in bonds and other investments with maturities of less than three years. The objective of this policy is to obtain the highest possible return with minimal risk, while keeping the funds accessible.

In December 2007, the Company invested \$1.4 million for a 19% interest in ACTGen, Inc., a development stage biotechnology company located in Japan. In September 2006, the Company invested \$7.2 million for an 18% equity interest in Nephromics, LLC. The investments were financed through cash and equivalents on hand.

Cash Flows From Financing Activities

Cash of \$2.6 million and \$530,000 was received during the six months ended December 31, 2007 and 2006, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of \$400,000 and \$108,000 for the six months ended December 31, 2007 and 2006, respectively.

During the first six months of fiscal 2008 and 2007, the Company purchased 23,641 shares and 22,400 shares of common stock, respectively, for its employee stock bonus plans at a cost of \$1.5 millions and \$1.2 million, respectively.

During the first six months of fiscal 2008, the Board of Directors authorized the Company, subject to market conditions and share price, to purchase an additional \$150 million of its common stock. During the first six months of fiscal 2008, the Company purchased and retired approximately 321,000 shares of common stock at a market value of \$20.6 million of which \$19.6 was disbursed prior to December 31, 2007.

The Company has never paid cash dividends and has no plans to do so in fiscal 2008.

Critical Accounting Policies

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2007. The application of certain of these policies require judgments and estimates that can affect the results of operations and financial position of the Company. Judgements and estimates are used for, but not limited to, accounting for the allowance for doubtful accounts, inventory valuation and allowances, impairment of goodwill,

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

intangibles and other long-lived assets, accounting for investments and income taxes. There have been no significant changes in estimates in fiscal 2008 which would require disclosure. There have been no changes to the Company's policies in fiscal 2008.

15

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R must be applied prospectively to business combinations consummated by the Company beginning in fiscal 2010.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other requirements, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is to be reported as a separate component of equity in the consolidated financial statements. SFAS No. 160 also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest and to disclose those amounts on the face of the consolidated statement of income. SFAS No. 160 must be applied prospectively by the Company beginning in fiscal 2010, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. The Statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements that are already required or permitted by other accounting standards and is effective for the Company in fiscal 2009. The Company is currently evaluating the impact of adopting SFAS No. 157.

Forward Looking Information and Cautionary Statements

This filing contains forward-looking statements within the meaning of the Private Litigation Reform Act. Forward-looking statements include those regarding the Company's expectations as to target sales growth rates, compensation expense resulting from stock option expensing, the effective tax rate, the sufficiency of currently available funds for meeting the Company's needs and capital expenditures. These statements involve risks and uncertainties that may affect the actual results of operations. The following important factors, among others, have affected and, in the future, could affect the Company's actual results: the introduction and acceptance of new biotechnology and hematology products, the levels and particular directions of research by the Company's customers, the impact of the growing number of producers of biotechnology research products and related price competition, the retention of hematology OEM (private label) and proficiency survey business, the impact of currency exchange rate fluctuations, the costs and results of research and product development efforts of the Company and of companies in which the Company has invested or with which it has formed strategic relationships, and the success of financing efforts by companies in

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

which the Company has invested. For additional information concerning such factors, see the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

16

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2007, the Company had an investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$136 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency rate changes. The Company is exposed to market risk from foreign exchange rate fluctuations of the euro, the British pound sterling and the Chinese yuan to the U.S. dollar as the financial position and operating results of the Company's U.K. subsidiary, European operations and Chinese subsidiary are translated into U.S. dollars for consolidation. At the current level of R&D Europe operating results, a 10% increase or decrease in the average exchange rate used to translate operating results into U.S. dollars would have an approximate \$2.2 million effect on consolidated operating income annually.

The Company's exposure to foreign exchange rate fluctuations also arises from transferring funds from the U.K. and Chinese subsidiaries to the U.S. subsidiary and from transferring funds from the German subsidiary and French sales office to the U.K. subsidiary. At December 31, 2007 and 2006, the Company had \$3.6 million and \$4.6 million, respectively, of dollar denominated intercompany debt at its U.K. subsidiary and at December 31, 2007, the Company had \$391,000 dollar denominated intercompany debt at its Chinese subsidiary. At December 31, 2007 and 2006, the U.K. subsidiary had \$532,000 and \$506,000, respectively, of dollar denominated intercompany debt from its European operations. These intercompany balances are revolving in nature and are not deemed to be long-term balances.

The Company's subsidiaries recognized net foreign currency gains and (losses) as follows (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/07	12/31/06	12/31/07	12/31/06
In Native Currency				
R&D Europe (British pound)	81	64	177	(14)
R&D China (Chinese yuan)	(90)	--	(345)	--
In U.S. Dollars				
R&D Europe	\$ 165	\$ 126	\$ 363	\$ (21)
R&D China	(12)	--	(46)	--
	\$ 153	\$ 126	\$ 317	\$ (21)
	=====	=====	=====	=====

The Company does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes on intercompany foreign currency denominated balance sheet positions.

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

ITEM 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

17

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 1A. - RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended June 30, 2007.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the repurchases of Company common stock for the quarter ended December 31, 2007:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/07-10/31/07	0	--	0	\$ 6.8 million
11/1/07-11/30/07	246,184	\$63.22	246,184	\$141.2 million
12/1/07-12/31/07	75,141	\$67.41	75,141	\$136.2 million

In October 2002, the Company authorized the purchase and retirement of \$20 million of its common stock of which \$6.8 million remained at October 31, 2007. In November 2007, the Company authorized the repurchase and retirement of an additional \$150 million of common stock. The stock repurchase authorization does not have an expiration date.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

Edgar Filing: TECHNE CORP /MN/ - Form 10-Q

ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

Information relating to the Company's Annual Meeting of Shareholders, held on October 25, 2007 is contained in the Company's Form 10-Q for the quarter ended September 30, 2007, which is incorporated herein by reference.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

See exhibit index following.

18

SIGNATURES

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

TECHNE CORPORATION
(Company)

Date: February 5, 2008

/s/ Thomas E. Oland

President, Chief Executive Officer

February 5, 2008

/s/ Gregory J. Melsen

Chief Financial Officer

EXHIBIT INDEX TO FORM 10-Q

TECHNE CORPORATION

Exhibit #	Description
-----	-----
10.1	Employment agreement, dated January 30, 2008 with Marcel Veronneau
31.1	Section 302 Certification
31.2	Section 302 Certification
32.1	Section 906 Certification
32.2	Section 906 Certification

