

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

TECHNE CORP /MN/  
Form 10-Q  
November 05, 2009

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 September 30, 2009, 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 has submitted electronically  
and posted on its corporate Web site, if any, every Interactive Data File  
required to be submitted and posted pursuant to Rule 405 of Regulation S-T  
(Section 232.405 of this chapter) during the preceding 12 months (or for such  
shorter period that the registrant was required to submit and post such  
files). Yes ( ) No ( )

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

Large accelerated filer (X) Accelerated filer ( )  
Non-accelerated filer ( ) Smaller reporting company ( )

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

At November 3, 2009, 37,246,629 shares of the Company's Common Stock (par  
value \$.01) were outstanding.

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

TECHNE CORPORATION  
FORM 10-Q  
SEPTEMBER 30, 2009

INDEX

	PAGE NO.
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (unaudited)	
Condensed Consolidated Balance Sheets as of September 30, 2009 and June 30, 2009	3
Condensed Consolidated Statements of Earnings for the Quarters Ended September 30, 2009 and 2008	4
Condensed Consolidated Statements of Cash Flows for the Quarters Ended September 30, 2009 and 2008	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	15
ITEM 4. CONTROLS AND PROCEDURES	16
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	17
ITEM 1A. RISK FACTORS	17
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	17
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

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

## CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share and per share data) (unaudited)

	9/30/09	6/30/09
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents	\$174,757	\$160,940
Short-term available-for-sale investments	52,518	41,947
Trade accounts receivable, net	30,334	29,516
Other receivables	1,391	1,637
Inventories	12,468	11,269
Deferred income taxes	9,403	9,345
Prepaid expenses	1,013	813
	-----	-----
Total current assets	281,884	255,467
	-----	-----
Available-for-sale investments	52,612	61,863
Property and equipment, net	98,806	100,133
Goodwill	25,068	25,068
Intangible assets, net	2,764	3,004
Deferred income taxes	3,447	3,601
Investments in unconsolidated entities	21,781	22,119
Other assets	684	750
	-----	-----
	\$487,046	\$472,005
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Trade accounts payable	\$ 5,705	\$ 5,156
Salaries, wages and related accruals	3,546	4,010
Other accounts payable and accrued expenses	2,285	2,311
Income taxes payable	4,504	4,046
	-----	-----
Total current liabilities	16,040	15,523
	-----	-----
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 37,244,629 and 37,244,029	372	372
Additional paid-in capital	118,080	117,946
Retained earnings	363,102	345,641
Accumulated other comprehensive loss	(10,548)	(7,477)
	-----	-----
Total stockholders' equity	471,006	456,482
	-----	-----
	\$487,046	\$472,005
	=====	=====

See notes to condensed consolidated financial statements.

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

QUARTER ENDED

-----

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

	9/30/09	9/30/08
	-----	-----
Net sales	\$ 66,534	\$ 69,324
Cost of sales	12,901	13,086
	-----	-----
Gross margin	53,633	56,238
	-----	-----
Operating expenses:		
Selling, general and administrative	8,038	8,840
Research and development	6,154	5,910
Amortization of intangible assets	240	240
	-----	-----
Total operating expenses	14,432	14,990
	-----	-----
Operating income	39,201	41,248
	-----	-----
Other income (expense):		
Interest income	1,168	2,887
Other non-operating expense, net	(662)	(1,187)
	-----	-----
Total other income	506	1,700
	-----	-----
Earnings before income taxes	39,707	42,948
Income taxes	12,935	14,355
	-----	-----
Net earnings	\$ 26,772	\$ 28,593
	=====	=====
Earnings per share:		
Basic	\$ 0.72	\$ 0.74
Diluted	\$ 0.72	\$ 0.74
Cash dividends per common share	\$ 0.25	\$ --
Weighted average common shares outstanding:		
Basic	37,245	38,624
Diluted	37,339	38,747

See notes to condensed consolidated financial statements.

4

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

	QUARTER ENDED	
	9/30/09	9/30/08
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 26,772	\$ 28,593
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,005	1,921
Deferred income taxes	(30)	(176)
Stock-based compensation expense	102	102
Excess tax benefit from stock option exercises	(10)	(66)
Losses by equity method investees	338	259
Other	65	158

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

Change in operating assets and operating liabilities:		
Trade accounts and other receivables	(533)	(2,099)
Inventories	(1,568)	(443)
Prepaid expenses	(203)	5
Trade accounts and other accounts payable and accrued expenses	302	758
Salaries, wages and related accruals	286	(2,759)
Income taxes payable	503	522
	-----	-----
Net cash provided by operating activities	28,029	26,775
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(563)	(742)
Purchase of available-for-sale investments	(6,365)	(29,698)
Proceeds from sales of available-for-sale investments	124	12,781
Proceeds from maturities of available-for-sale investments	5,225	10,760
Distribution from unconsolidated entity	--	1,340
	-----	-----
Net cash used in investing activities	(1,579)	(5,559)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	22	797
Excess tax benefit from stock option exercises	10	66
Purchase of common stock for stock bonus plans	(607)	(1,681)
Dividends paid	(9,311)	--
Repurchase and retirement of common stock	--	(12,902)
	-----	-----
Net cash used in financing activities	(9,886)	(13,720)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(2,747)	(12,417)
	-----	-----
Net increase (decrease) in cash and cash equivalents	13,817	(4,921)
Cash and cash equivalents at beginning of period	160,940	166,992
	-----	-----
Cash and cash equivalents at end of period	\$174,757	\$162,071
	=====	=====

See notes to condensed consolidated financial statements.

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

### A. GENERAL

#### Basis of presentation:

The interim 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 interim 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.

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

A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 2009. 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 interim unaudited condensed consolidated financial statements should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 2009, included in the Company's Annual Report on Form 10-K for fiscal 2009.

### Subsequent events:

The Company has evaluated subsequent events through November 5, 2009, the date these condensed consolidated financial statements were issued.

### Fair value measurements:

The carrying amounts of cash and cash equivalents, receivables, accounts payable and other current liabilities approximate fair value due to their short-term nature. The Company's available-for-sale securities of \$105 million at September 30, 2009 are carried at fair value and are valued using quoted market prices in active markets for identical assets and liabilities.

### Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-01, which establishes The FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The ASC is effective for interim and annual periods ending after September 15, 2009. The Company has adopted the ASC when referring to GAAP in this report on Form 10-Q for the quarter ended September 30, 2009. The adoption of the ASC did not have an impact on the Company's consolidated financial statements.

In September 2006, the FASB issued guidance, now codified as ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB released additional guidance, also now codified under ASC Topic 820, which provided for delayed application of certain guidance related to non-financial assets and non-financial liabilities not measured at fair value on a recurring basis. The Company adopted ASC Topic 820 on July 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in the FASB's February 2008 guidance. The Company adopted the provisions of ASC Topic 820 with respect to nonfinancial assets and nonfinancial liabilities effective July 1, 2009. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statement disclosures.

In November 2008, the FASB issued EITF No. 08-6 Equity-Method Accounting Considerations, now codified in ACS Topic 323. EITF 08-6 concludes that the cost basis of a new equity-method investment would be determined using a cost-accumulation model, which would continue the practice of including transaction costs in the cost of investment and would exclude the value of contingent consideration. It also requires that a share issuance

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

by an investee shall be accounted for by the investor as if the investor had sold a proportionate share of its investment, with any resulting gain or loss recognized in earnings. EITF 8-6 is effective for the Company for fiscal year 2010. Adoption of EITF 08-6 did not have a material impact on the Company's consolidated financial statements.

In June 2009, new guidance was issued by the FASB, now codified in ASC Topic 810, Consolidation. This statement amends the consolidation guidance applicable to variable interest entities and is effective for the Company beginning July 1, 2010. The Company believes the adoption of this pronouncement will not have a significant impact on the Company's consolidated financial statements.

### B. BALANCE SHEET

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

	9/30/09	6/30/09
	-----	-----
TRADE ACCOUNTS RECEIVABLE		
Trade accounts receivable	\$ 30,692	\$ 29,873
Allowance for doubtful accounts	(358)	(357)
	-----	-----
NET TRADE ACCOUNTS RECEIVABLE	\$ 30,334	\$ 29,516
	=====	=====
INVENTORIES		
Raw materials	\$ 5,192	\$ 4,905
Supplies	147	142
Finished goods	7,129	6,222
	-----	-----
TOTAL INVENTORIES	\$ 12,468	\$ 11,269
	=====	=====
PROPERTY AND EQUIPMENT		
Land	\$ 7,505	\$ 7,538
Buildings and improvements	116,589	116,662
Laboratory equipment	25,127	24,759
Office equipment	4,827	4,746
	-----	-----
Accumulated depreciation and amortization	154,048	153,705
	(55,242)	(53,572)
	-----	-----
NET PROPERTY AND EQUIPMENT	\$ 98,806	\$100,133
	=====	=====
INTANGIBLE ASSETS		
Customer relationships	\$ 1,966	\$ 1,966
Technology	3,483	3,483
Trade names	1,396	1,396
	-----	-----
Accumulated amortization	6,845	6,845
	(4,081)	(3,841)
	-----	-----
NET INTANGIBLE ASSETS	\$ 2,764	\$ 3,004
	=====	=====
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Foreign currency translation adjustments	(\$11,330)	(\$ 8,035)
Unrealized gains on available-for-sale investments	782	558
	-----	-----
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	(\$10,548)	(\$ 7,477)
	=====	=====

## C. INCOME TAXES

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$143 million as of September 30, 2009. Deferred taxes have not been provided on such undistributed earnings as the Company has either paid U.S. taxes on the undistributed earnings or intends to indefinitely reinvest the undistributed earnings in the foreign operations. The Company is evaluating the possibility of repatriating to the U.S., all or a portion of the undistributed earnings on which it has previously paid U.S. taxes. The maximum amount being considered for repatriation would not result in a material amount of additional U.S. tax liability.

## D. EARNINGS PER SHARE:

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

	QUARTER ENDED	
	9/30/09	9/30/08
Weighted average common shares outstanding-basic	37,245	38,624
Dilutive effect of stock options and warrants	94	123
Weighted average common shares outstanding-diluted	37,339	38,747
	=====	=====

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 28,000 and 2,000 for the quarters ended September 30, 2009 and 2008, respectively.

## E. SEGMENT INFORMATION:

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

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

	QUARTER ENDED	
	9/30/09	9/30/08
External sales		
Biotechnology	\$ 44,028	\$ 46,137
R&D Europe	17,838	18,941
Hematology	4,668	4,246
	-----	-----



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

Consolidated net sales	\$ 66,534	\$ 69,324
	=====	=====
Earnings before income taxes		
Biotechnology	\$ 31,580	\$ 33,339
R&D Europe	7,879	9,722
Hematology	1,853	1,350
	-----	-----
Segment earnings before income taxes	41,312	44,411
Unallocated corporate expenses and equity method investee losses	(1,605)	(1,463)
	-----	-----
Consolidated earnings before income taxes	\$ 39,707	\$ 42,948
	=====	=====

## F. STOCK OPTIONS:

Option activity under the Company's stock option plans during the quarter ended September 30, 2009 was as follows:

	SHARES (IN 000'S)	WEIGHTED AVG. EXERCISE PRICE	WEIGHTED AVG. CONTRACTUAL LIFE (Yrs.)	AGGREGATE INTRINSIC VALUE
Outstanding at June 30, 2009	398	\$49.49		
Granted	2	\$62.46		
Exercised	(1)	\$37.01		
Forfeited or expired	--	--		
	---			
Outstanding at September 30, 2009	399	\$49.57	4.6	\$5.5 million
	===			
Exercisable at September 30, 2009	380	\$49.04	4.5	\$5.4 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	
	9/30/09	9/30/08
Dividend yield	1.6%	--
Expected annualized volatility	24%	24%
Risk free interest rate	2.5%	3.5%
Expected life	4 years	5 years
Weighted average fair value of options granted	\$12.08	\$21.67

The Company declared and paid its first ever dividend during the quarter ended December 31, 2008. As the Company had not established a practice of paying dividends prior to the granting of options in the first half of fiscal 2009, an expected dividend yield of zero was used to estimate the fair value of options granted in the first half of fiscal 2009. 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

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

determining option fair value.

The total intrinsic value of options exercised during the quarters ended September 30, 2009 and 2008 was \$16,000 and \$530,000, respectively. Stock option exercises were satisfied through the issuance of new shares. The total fair value of options vested during the quarters ended September 30, 2009 and 2008 was \$21,000 and \$39,000, respectively.

Stock-based compensation cost of \$102,000 was included in selling, general and administrative expense for both of the quarters ended September 30, 2009 and 2008. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of September 30, 2009, there was \$198,000 of total unrecognized compensation cost related to non-vested stock options that will be expensed in fiscal 2010.

### G. COMPREHENSIVE INCOME:

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

	QUARTER ENDED	
	9/30/09	9/30/08
Net earnings	\$ 26,772	\$ 28,593
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(3,295)	(14,131)
Unrealized gain on available-for-sale investments, net of tax	224	1,462
Comprehensive income	\$ 23,701	\$ 15,924
	=====	=====

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

### 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 subsidiaries, Research and Diagnostic Systems, Inc (R&D Systems) and BiosPacific, Inc. (BiosPacific). The Company distributes biotechnology products in Europe through its wholly-owned U.K. subsidiary, R&D Systems Europe Ltd. (R&D Europe). R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France. The Company distributes biotechnology products in China through its wholly-owned subsidiary, R&D Systems China, Co. Ltd. (R&D China).

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

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

### Results of Operations for the Quarters Ended September 30, 2009 and 2008

Consolidated net sales and consolidated net earnings decreased 4.0% and 6.4%, respectively, for the quarter ended September 30, 2009 compared to the quarter ended September 30, 2008. Consolidated net sales and net earnings were unfavorably affected by the strengthening of the U.S. dollar as compared to foreign currencies for the quarter ended September 30, 2009. The unfavorable impact on consolidated net sales of the change from the prior year in exchange rates used to convert sales in foreign currencies (primarily British pounds sterling and Euros) into U.S. dollars was \$1.2 million for the quarter ended September 30, 2009. The unfavorable impact on consolidated net earnings of the change from the prior year in exchange rates used to convert foreign currency financial statements to U.S. dollars was \$566,000 for the quarter ended September 30, 2009. In the first quarter of fiscal 2010, the Company generated cash of \$28.0 million from operating activities, paid cash dividends of \$9.3 million and had cash, cash equivalents and available-for-sale investments of \$280 million at September 30, 2009 compared to \$265 million at June 30, 2009.

#### Net Sales

Consolidated net sales for the quarter ended September 30, 2009 were \$66.5 million, a decrease of \$2.8 million (4.0%) from the quarter ended September 30, 2008. Excluding the effect of changes in foreign currency exchange rates, consolidated net sales decreased 2.2% the quarter ended September 30, 2009 from the comparable prior-year period. Included in consolidated net sales for the quarter ended September 30, 2009 was \$247,000 of sales of new biotechnology products which had their first sale in fiscal 2010.

Biotechnology net sales decreased \$2.1 million (4.6%) for the quarter ended September 30, 2009 mainly as a result of decreased sales volume which the Company attributes to continued customer caution in a time of economic uncertainty and the exceptionally strong growth rate of 18.7% in the first quarter of fiscal 2009. North American biotechnology sales to industrial pharmaceutical and biotechnology customers declined approximately 12.8% during the first quarter of fiscal 2010 compared to the same prior-year period. Biotechnology sales to North American academic and Pacific Rim distributors each grew about 3.9% and biotechnology sales in China grew 30.1% during the first quarter of fiscal 2010 compared to the same prior-year period.

R&D Europe net sales decreased \$1.1 million (5.8%) for the quarter ended September 30, 2009 from the comparable prior-year period. R&D Europe's net sales increased 0.8% for the quarter ended September 30, 2009 when measured at currency rates in effect in the comparable prior-year period. Approximately 75% of R&D Europe sales are in non-British pound sterling currencies (mainly Euro) which had a favorable impact on consolidated net sales of approximately \$1.2 million for the quarter ended September 30, 2009 as a result of the change in exchange rates used to convert sales in other currencies to British pounds sterling. This favorable impact was offset by an unfavorable impact on consolidated net sales of approximately \$2.4 million for the quarter ended September 30, 2009 as a result of the change in exchange rates used to convert British pound sterling to U.S. dollars.

Hematology sales increased \$422,000 (9.9%) for the quarter ended September 30, 2009 compared to the same prior-year period, as a result of increased sales volume.

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

### Gross Margins

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

	QUARTER ENDED	
	9/30/09	9/30/08
Biotechnology	80.9%	81.0%
R&D Europe	53.5%	58.1%
Hematology	50.3%	44.2%
Consolidated gross margin	80.6%	81.1%

Consolidated gross margins, as a percentage of consolidated net sales, decreased slightly from 81.1% for the quarter ended September 30, 2008 to 80.6% for the quarter ended September 30, 2009. This decrease was primarily caused by unfavorable exchange rates.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses were composed of the following (in thousands):

	QUARTER ENDED	
	9/30/09	9/30/08
Biotechnology	\$ 4,734	\$ 5,141
R&D Europe	1,952	2,283
Hematology	370	436
Unallocated corporate expenses	982	980
Consolidated selling, general and administrative expenses	\$ 8,038	\$ 8,840
	=====	=====

Selling, general and administrative expenses for the quarter ended September 30, 2009 decreased \$802,000 (9.1%) from the same prior-year period as a result of a reduction in profit sharing expense of \$635,000, which was directly related to the Company's results for the periods, and the change in exchange rates used to convert foreign expenses to U.S. dollars of \$198,000.

### Research and Development Expenses

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

	QUARTER ENDED	
	9/30/09	9/30/08
Biotechnology	\$ 5,956	\$ 5,717
Hematology	198	193
Consolidated research and development expenses	\$ 6,154	\$ 5,910
	=====	=====

### Interest Income

Interest income decreased \$1.7 million for the quarter ended September 30,

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

2009 from the comparable prior-year period, primarily as a result of lower rates of return on cash and available-for-sale investments.

12

### 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	
	9/30/09	9/30/08
Foreign currency gains (losses)	\$ 143	(\$ 474)
Rental income	81	99
Real estate taxes, depreciation and utilities	(548)	(553)
Losses by equity method investees	(338)	(259)
Consolidated other non-operating expense	(\$ 662)	(\$ 1,187)

### Income Taxes

Income taxes for the quarter ended September 30, 2009 and 2008 were provided at rates of 32.6% and 33.4% of consolidated earnings before income taxes, respectively. The U.S credit for research and development expired at the end of calendar 2007 and was not renewed until the quarter ended December 31, 2008, resulting in a higher effective tax rate for the quarter ended September 30, 2008. 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. The Company expects its fiscal 2010 effective income tax rate to range from approximately 32.0% to 33.0%.

### Liquidity and Capital Resources

At September 30, 2009, cash and cash equivalents and available-for-sale investments were \$280 million compared to \$265 million at June 30, 2009. 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 or sales 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 \$28.0 million from operating activities in the first quarter of fiscal 2010 compared to \$26.8 million in the first quarter of fiscal 2009. The increase from the prior year was primarily due to changes in operating assets and liabilities partially offset by a decrease in net earnings in the current year of \$1.8 million.

### Cash Flows From Investing Activities

Capital expenditures for fixed assets for the first quarter of fiscal 2010 and 2009 were \$563,000 and \$742,000, respectively. The capital additions

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

were mainly for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2010 are expected to be approximately \$5.3 million and are expected to be financed through currently available funds and cash generated from operating activities.

13

During the quarter ended September 30, 2009, the Company purchased \$6.4 million and had sales or maturities of \$5.3 million of available-for-sale investments. During the quarter ended September 30, 2008, the Company purchased \$29.7 million and had sales or maturities of \$23.5 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 while minimizing risk and keeping the funds accessible.

During the quarter ended September 30, 2008, the Company received a \$1.3 million distribution from its investment in Nephromics, LLC (Nephromics). The Company accounts for its investment in Nephromics under the equity method of accounting as Nephromics is a limited liability company.

### Cash Flows From Financing Activities

Cash of \$22,000 and \$797,000 was received during the quarters ended September 30, 2009 and 2008, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of \$10,000 and \$66,000 for the quarters ended September 30, 2009 and 2008, respectively.

During the first quarter of fiscal 2010 and 2009, the Company purchased 9,827 and 22,637 shares of common stock, respectively, for its employee stock bonus plans at a cost of \$607,000 and \$1.7 million, respectively.

During the first quarter of fiscal 2010, the Company paid cash dividends of \$9.3 million to all common shareholders. On October 29, 2009, the Company announced the payment of a \$0.26 per share cash dividend. The dividend of approximately \$9.7 million will be payable November 23, 2009 to all common shareholders of record on November 9, 2009.

During the first quarter of fiscal 2009, the Company purchased and retired approximately 214,000 shares of common stock at a market value of \$15.6 million of which \$12.9 million was disbursed prior to September 30, 2008.

### Contractual Obligations

There were no material changes outside the ordinary course of business in the Company's contractual obligations during the quarter ended September 30, 2009.

### Critical Accounting Policies

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2009. The application of certain of these policies require judgments and estimates that can affect the results of operations and financial position of the Company. Judgments and estimates are used for, but not limited to, valuation of available-for-sale investments, inventory valuation and allowances, impairment of goodwill, intangibles and other long-lived assets and valuation of investments in unconsolidated entities. There have been no significant changes in estimates

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

in fiscal 2010 which would require disclosure. There have been no changes to the Company's policies in fiscal 2010.

14

### Forward Looking Information and Cautionary Statements

This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those regarding the Company's expectations as to the effective tax rate, pending litigation, the amount of capital expenditures for the remainder of the fiscal year, the Company's adoption and impact of recent accounting pronouncements and the sufficiency of currently available funds for meeting the Company's needs. 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, general economic conditions, 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, the impact of governmental regulation and intellectual property litigation, the recruitment and retention of qualified personnel, the number of business or selling days in a period and the success of financing efforts by companies in which the Company has invested, and the success of the Company's expansion into China. For additional information concerning such factors, see the Company's Annual Report on Form 10-K for fiscal 2009 as filed with the Securities and Exchange Commission.

### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2009, the Company had an independently managed investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$105 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. However, because the Company's fixed income securities are classified as available-for-sale, no gains or losses are recognized by the Company in its consolidated statements of earnings due to changes in interest rates unless such securities are sold prior to maturity. The Company generally holds its fixed income securities until maturity and, historically, has not recorded any material gains or losses on any sale prior to maturity.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency rate changes. Approximately 30% of consolidated net sales are made in foreign currencies including 16% in euro, 7% in British pound sterling, 3% in Chinese yuan and the remaining 4% in other European currencies. As a result, the Company is exposed to market risk mainly from foreign exchange rate fluctuations of the euro, British pound sterling and the Chinese yuan as compared to the U.S. dollar as the financial position and operating results of the Company's foreign operations are translated into U.S. dollars for consolidation.

Month-end average exchange rates between the British pound sterling, euro and

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

Chinese yuan and the U.S. dollar, which have not been weighted for actual sales volume in the applicable months in the periods, were as follows:

	QUARTER ENDED	
	9/30/09	9/30/08
British pound sterling	\$1.63	\$1.86
Euro	1.44	1.48
Chinese yuan	.146	.146

15

The Company's exposure to foreign exchange rate fluctuations also arises from trade receivables and intercompany payables denominated in one currency in the financial statements, but receivable or payable in another currency. At September 30, 2009, the Company had the following trade receivable and intercompany payables denominated in one currency but receivable or payable in another currency (in thousands):

	DENOMINATED CURRENCY	U.S. DOLLAR EQUIVALENT
Accounts receivable in:		
Euros	823 Br. pounds	\$ 1,316
Other European currencies	702 Br. pounds	\$ 1,122
Intercompany payable in:		
Euros	378 Br. pounds	\$ 604
U.S. dollars	2,835 Br. pounds	\$ 4,530
U.S. dollars	3,594 Ch. yuan	\$ 526

All of the above balances are revolving in nature and are not deemed to be long-term balances.

The Company does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes on forecasted intercompany foreign currency denominated balance sheet positions. Foreign currency transaction gains and losses are included in "Other non-operating expense" in the consolidated statement of earnings. The effect of translating net assets of foreign subsidiaries into U.S. dollars are recorded on the consolidated balance sheet as part of "Accumulated other comprehensive income."

The effects of a hypothetical simultaneous 10% appreciation in the U.S. dollar from September 30, 2009 levels against the euro, British pound sterling and Chinese yuan are as follows (in thousands):

	HYPOTHETICAL EFFECT INCREASE/ (DECREASE)
Translation of earnings into U.S. dollars (annualized)	(\$ 2,166)
Transaction losses	460
Translation of net assets of foreign subsidiaries	(12,410)



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

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 as amended (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 material 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 (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) 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.

16

### PART II. OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

In a previously disclosed lawsuit filed by Streck, Inc. (Streck), venued in Omaha, Nebraska, Streck alleged patent infringement involving certain patents issued to Streck relating to the addition of reticulocytes to hematology controls. Streck was seeking a royalty on sales of integrated hematology controls containing reticulocytes. The Company has reason to believe that R&D Systems and not Streck, first invented the inventions claimed in these patents and several other patents issued to Streck. As a result, the Company requested, and in 2007 the U.S. Patent and Trademark Office (USPTO) declared, an interference to determine priority of invention between a patent application filed by R&D Systems and five Streck patents, including each of the patents involved in the lawsuit. On November 2, 2009, the Interference Board ordered that judgment for the Company and against Streck be entered, finding that R&D was the first to invent the integrated hematology controls containing reticulocytes.

The judgment, once upheld, will constitute cancellation of all claims of the five Streck patents involving the addition of reticulocytes to hematology controls. Such cancellation may moot an earlier jury decision on October 28, 2009, at the conclusion of trial in the Nebraska lawsuit, that the Company did not meet its burden of demonstrating by clear and convincing evidence that the Streck patents were invalid. The jury also found that a reasonable license royalty rate was 12.5%, and that R&D Systems did not willfully infringe, resulting in a judgment in favor of Streck in the amount of \$92,300. The Company will also be responsible for court related costs (estimated at about \$50,000) and its professional fees related to the case. The Company will defend the Interference Board's decision, will move the Nebraska Court for declaratory judgment of invalidity as a matter of law based on priority, and will appeal any continuing adverse decision of the Nebraska Court. If successful, after cancellation of the Streck patents, the Company will be issued a patent covering integrated hematology controls containing reticulocytes. The Company does not believe the resolution of the above proceedings will have a material impact on the Company's consolidated financial statements.

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

## 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, 2009.

## 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 September 30, 2009:

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
7/1/09-7/31/09	0	\$ --	0	\$67.5 million
8/1/09-8/31/09	0	\$ --	0	\$67.5 million
9/1/09-9/30/09	9,827	\$ 61.75	0	\$67.5 million

17

In November 2007, the Company authorized a plan for the repurchase and retirement of \$150 million of its common stock. In April 2009, the Company authorized an additional \$60 million for its stock repurchase plan. The plan does not have an expiration date.

## ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

- The Annual Meeting of the Company's shareholders was held on Thursday, October 29, 2009.
- A proposal to set the number of directors at eight was adopted by a vote of 35,473,291 in favor with 66,116 shares against, and 45,351 shares abstaining.
- Proxies for the Annual Meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934. There was no solicitation in opposition to the nominees as listed in the Proxy Statement, and all such nominees were elected as follows:

Nominee	For	Withheld
Thomas E. Oland	35,101,592	483,166
Roger C. Lucas	35,073,075	511,683
Howard V. O'Connell	32,802,537	2,782,221
Randolph C. Steer	34,832,779	751,979
Robert V. Baumgartner	34,949,868	634,890
Charles A. Dinarello	35,430,116	154,642

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

Karen A. Holbrook	35,431,894	152,864
John L. Higgins	34,944,194	640,564

## ITEM 5 - OTHER INFORMATION

None.

## ITEM 6 - EXHIBITS

See "exhibit index" following the signature page.

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: November 5, 2009	/s/ Thomas E. Oland
	-----
	President, Chief Executive Officer

Date: November 5, 2009	/s/ Gregory J. Melsen
	-----
	Chief Financial Officer

## EXHIBIT INDEX TO FORM 10-Q

### TECHNE CORPORATION

Exhibit -----	Description -----
31.1*	Section 302 Certification
31.2*	Section 302 Certification
32.1*	Section 906 Certification
32.2*	Section 906 Certification

\*Filed herewith

