

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

TECHNE CORP /MN/
Form 10-Q
May 09, 2007

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 March 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 May 4, 2007, 39,449,377 shares of the Company's Common Stock (par value \$.01) were outstanding.

TECHNE CORPORATION
FORM 10-Q

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

MARCH 31, 2007

INDEX

	PAGE NO.
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (unaudited)	
Condensed Consolidated Balance Sheets as of March 31, 2007 and June 30, 2006	3
Condensed Consolidated Statements of Earnings for the Quarters and Nine Months Ended March 31, 2007 and 2006	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 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	11
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	17
ITEM 4. CONTROLS AND PROCEDURES	18
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	19
ITEM 5. OTHER INFORMATION	19
ITEM 6. EXHIBITS	19
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)

	3/31/07	6/30/06
	-----	-----
ASSETS		
Cash and cash equivalents	\$116,276	\$ 89,634
Short-term available-for-sale investments	27,822	19,212
Trade accounts receivable, net	29,582	23,769
Other receivables	1,247	1,309

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

Inventories	9,574	9,024
Deferred income taxes	6,892	6,121
Prepaid expenses	999	753
	-----	-----
Total current assets	192,392	149,822
Available-for-sale investments	85,854	77,660
Property and equipment, net	89,172	88,772
Goodwill, net	25,068	25,308
Intangible assets, net	5,503	6,713
Deferred income taxes	4,444	4,638
Investments in unconsolidated entities	24,498	17,195
Other assets	242	404
	-----	-----
	\$427,173	\$370,512
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 3,912	\$ 3,627
Salaries, wages and related accruals	4,455	5,148
Other accounts payable and accrued expenses	1,936	1,833
Income taxes payable	5,407	6,129
Current portion of long-term debt	--	1,229
	-----	-----
Total current liabilities	15,710	17,966
Long-term debt, less current portion	--	12,198
	-----	-----
Total liabilities	15,710	30,164
	-----	-----
Commitments and contingencies		
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 39,421,667 and 39,376,782, respectively		
	394	394
Additional paid-in capital	105,376	101,941
Retained earnings	294,516	232,328
Accumulated other comprehensive income	11,177	5,685
	-----	-----
Total stockholders' equity	411,463	340,348
	-----	-----
	\$427,173	\$370,512
	=====	=====

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		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
	-----	-----	-----	-----
Net sales	\$ 60,197	\$ 54,813	\$165,057	\$150,551
Cost of sales	12,019	12,105	33,970	33,896

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

Gross margin	48,178	42,708	131,087	116,655
Operating expenses:				
Selling, general and administrative	7,229	6,901	23,126	21,335
Research and development	5,169	4,761	15,068	14,052
Amortization of intangible assets	403	492	1,210	1,476
Total operating expenses	12,801	12,154	39,404	36,863
Operating income	35,377	30,554	91,683	79,792
Other expense (income):				
Interest expense	--	245	1,083	706
Interest income	(2,237)	(1,082)	(5,869)	(3,186)
Other non-operating expense, net	767	229	1,680	721
Total other income	(1,470)	(608)	(3,106)	(1,759)
Earnings before income taxes	36,847	31,162	94,789	81,551
Income taxes	12,954	10,815	32,602	27,689
Net earnings	\$ 23,893	\$ 20,347	\$ 62,187	\$ 53,862
Earnings per share:				
Basic	\$ 0.61	\$ 0.52	\$ 1.58	\$ 1.38
Diluted	\$ 0.60	\$ 0.52	\$ 1.57	\$ 1.36
Weighted average common shares outstanding:				
Basic	39,414	39,199	39,393	38,941
Diluted	39,543	39,425	39,498	39,631

See notes to condensed consolidated financial statements.

4

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

	NINE MONTHS ENDED	
	3/31/07	3/31/06
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 62,187	\$ 53,862
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,152	5,168
Deferred income taxes	(328)	(1,120)
Stock-based compensation expense	1,467	1,516
Excess tax benefit from stock option exercises	(329)	(7,944)
Losses by equity method investees	634	247
Other	126	175
Change in operating assets and operating liabilities, net of acquisitions:		
Trade accounts and other receivables	(5,110)	(4,431)
Inventories	(645)	438
Prepaid expenses	(226)	4

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

Trade, other accounts payable and accrued expenses	321	(17)
Salaries, wages and related accruals	506	407
Income taxes payable	(581)	8,029
	-----	-----
Net cash provided by operating activities	63,174	56,334
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(4,293)	(2,785)
Purchase of available-for-sale investments	(34,195)	(73,825)
Proceeds from sales of available-for-sale investments	4,244	45,963
Proceeds from maturities of available-for-sale investments	13,485	7,420
Increase in investments in unconsolidated entities	(7,900)	(750)
Acquisitions, net of cash acquired	--	(19,587)
	-----	-----
Net cash used in investing activities	(28,659)	(43,564)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,639	12,377
Excess tax benefit from stock option exercises	329	7,944
Purchase of common stock for stock bonus plans	(1,222)	(1,292)
Repurchase of common stock	--	(25,981)
Payments on long-term debt	(13,427)	(897)
	-----	-----
Net cash used in financing activities	(12,681)	(7,849)
	-----	-----
Effect of exchange rate changes on cash	4,808	(1,669)
	-----	-----
Net increase in cash and cash equivalents	26,642	3,252
Cash and cash equivalents at beginning of period	89,634	80,344
	-----	-----
Cash and cash equivalents at end of period	\$116,276	\$ 83,596
	=====	=====

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 to 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 2006. 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

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

have been condensed or omitted. These 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, 2006 included in the Company's Annual Report to Shareholders for fiscal 2006.

Recent Accounting Pronouncements:

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. The Statement replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires companies to apply voluntary changes in accounting principles retrospectively whenever practicable. The requirement is effective for the Company beginning in fiscal 2007. Adoption of the Statement did not have an impact on the Company's prior consolidated financial statements as it is prospective in nature.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 requires disclosures of additional quantitative and qualitative information regarding uncertain tax positions taken for tax-return purposes that have not been recognized for financial reporting, along with analysis of significant changes during each period. The Interpretation is effective for the Company in fiscal 2008. The Company is currently evaluating the provisions of FIN 48, but it is not expected to have a material impact on the Company's consolidated financial statements.

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, but it is not expected to have a material impact on the Company's consolidated financial statements.

In September 2006, the Securities and Exchange Commission released Staff Accounting Bulletin 108 (SAB 108). SAB 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the Company for fiscal year ending June 30, 2007. The Company is currently evaluating the impact of adopting SAB 108, but it is not expected to have a material impact on the Company's consolidated financial statements.

6

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The Statement permits entities to choose to measure certain financial instruments at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company in fiscal 2009. The Company is currently evaluating the impact of adopting SFAS No. 159, but it is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications:

Certain reclassifications have been made to the prior year consolidated

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

financial statements to conform to the current year presentation. These reclassifications had no impact on earnings or stockholders' equity as previously reported.

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

	3/31/07	6/30/06
	-----	-----
TRADE ACCOUNTS RECEIVABLE		
Trade accounts receivable	\$ 29,712	\$ 23,889
Less allowance for doubtful accounts	130	120
	-----	-----
NET TRADE ACCOUNTS RECEIVABLE	\$ 29,582	\$ 23,769
	=====	=====
INVENTORIES		
Raw materials	\$ 3,711	\$ 3,561
Supplies	117	119
Finished goods	5,746	5,344
	-----	-----
TOTAL INVENTORIES	\$ 9,574	\$ 9,024
	=====	=====
PROPERTY AND EQUIPMENT		
Land	\$ 4,214	\$ 4,214
Buildings and improvements	100,049	88,399
Building construction in progress	743	9,965
Laboratory equipment	20,740	19,473
Office equipment	4,226	3,711
Leasehold improvements	916	843
	-----	-----
	130,888	126,605
Less accumulated depreciation and amortization	41,716	37,833
	-----	-----
NET PROPERTY AND EQUIPMENT	\$ 89,172	\$ 88,772
	=====	=====
GOODWILL	\$ 51,374	\$ 51,614
Less accumulated amortization	26,306	26,306
	-----	-----
NET GOODWILL	\$ 25,068	\$ 25,308
	=====	=====

The \$240,000 reduction in goodwill from June 30, 2006 was a result of the realization of pre-acquisition deferred tax assets of Fortron.

7

	3/31/07	6/30/06
	-----	-----
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	20,320	19,110
	-----	-----
NET INTANGIBLE ASSETS	\$ 5,503	\$ 6,713
	=====	=====
ACCUMULATED OTHER COMPREHENSIVE INCOME:		

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

Foreign currency translation adjustments	\$ 11,471	\$ 6,521	
Unrealized losses on available-for-sale investments	(294)	(836)	
	-----	-----	
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME	\$ 11,177	\$ 5,685	
	=====	=====	

B. EARNINGS PER SHARE:

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

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
	-----	-----	-----	-----
Weighted average common shares outstanding-basic	39,414	39,199	39,393	38,941
Dilutive effect of forward contract	--	--	--	334
Dilutive effect of stock options and warrants	129	226	105	356
	-----	-----	-----	-----
Weighted average common shares outstanding-diluted	39,543	39,425	39,498	39,631
	=====	=====	=====	=====

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 7,000 for both the quarter and nine months ended March 31, 2007, and 1,000 for both the quarter and nine months ended March 31, 2006.

The forward contract in the above table refers to the accelerated stock buyback ("ASB") transaction settled in December 2005. In March 2005, the Company repurchased approximately 2.9 million shares of its common stock under an ASB transaction for an initial value of approximately \$100 million (\$34.45 per share). The transaction was completed under a privately negotiated contract with an investment bank. The investment bank borrowed the 2.9 million shares to complete the transaction and purchased the replacement shares in the open market over a nine-month period beginning in March 2005. The ASB agreement was subject to a market price adjustment provision based upon the volume weighted average price during the nine-month period. The Company had the option to settle the ASB agreement in cash or shares of the Company's common stock (forward contract) and, accordingly the contract was classified as equity. The ASB agreement was settled in December 2005 for a cash payment of \$26.0 million, which resulted in a total price paid per share of approximately \$44.67.

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 Bio Science, Inc. and BiosPacific, Inc., 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.

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

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

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
External sales				
Biotechnology	\$ 39,130	\$ 36,617	\$108,478	\$100,059
R&D Systems Europe	17,403	14,496	45,587	39,477
Hematology	3,664	3,700	10,992	11,015
Total external sales	60,197	54,813	165,057	150,551
Intersegment sales - Biotechnology	7,071	6,394	19,418	18,248
Total sales	67,268	61,207	184,475	168,799
Less intersegment sales	(7,071)	(6,394)	(19,418)	(18,248)
Total consolidated net sales	\$ 60,197	\$ 54,813	\$165,057	\$150,551
Earnings before income taxes				
Biotechnology	\$ 28,537	\$ 24,971	\$ 75,983	\$ 66,147
R&D Systems Europe	8,276	5,946	20,218	15,765
Hematology	1,061	1,031	3,113	3,031
Corporate and equity method investees	(1,027)	(786)	(4,525)	(3,392)
Total earnings before income taxes	\$ 36,847	\$ 31,162	\$ 94,789	\$ 81,551

D. STOCK OPTIONS:

Option activity under the Company's stock option plans during the nine months ended March 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, 2006	421	\$38.89
Granted	43	55.89		
Exercised	(45)	36.52		
Forfeited or expired	--	--		
Outstanding at March 31, 2007	419	\$40.89	4.92	\$6.8 million
Exercisable at March 31, 2007	388	\$40.55	4.83	\$6.4 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		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
Dividend yield	--	--	--	--
Expected annualized volatility	47%	N/A	31%-47%	37%-53%
Risk free interest rate	4.8%	N/A	4.7%-5.1%	4.0%-4.4%
Expected life	8 years	N/A	7 years	6 years

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

Weighted average fair value of options granted \$32.88 N/A \$31.53 \$30.03

9

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 nine months ended March 31, 2007 was \$715,000 and \$969,000, respectively. The total intrinsic value of options exercised during the quarter and nine months ended March 31, 2006 was \$22.8 million and \$28.3 million, respectively. Stock option exercises are satisfied through the issuance of new shares. The total fair value of options vested during the quarter and nine months ended March 31, 2007 was \$164,000 and \$1.5 million, respectively. No options vested during the quarter ended March 31, 2006. The total fair value of options vested during the nine months ended March 31, 2006 was \$1.7 million.

Stock-based compensation cost of \$238,000 and \$1.5 million was included in selling, general and administrative expense for the quarter and nine months ended March 31, 2007, respectively. Stock-based compensation cost of \$140,000 and \$1.5 million was included in selling, general and administrative expense for the quarter and nine months ended March 31, 2006, respectively. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of March 31, 2007, there was \$260,000 of total unrecognized compensation cost related to nonvested stock options that will be expensed over fiscal years 2007 through 2009.

E. COMPREHENSIVE INCOME:

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

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
Net earnings	\$ 23,893	\$ 20,347	\$ 62,187	\$ 53,862
Other comprehensive gain (loss), net of tax effect:				
Foreign currency translation adjustments	498	617	4,949	(1,753)
Unrealized gain (loss) on available-for-sale investments	22	(178)	543	(347)
Comprehensive income	\$ 24,413	\$ 20,786	\$ 67,679	\$ 51,762

F. INVESTMENTS:

In September 2006, the Company invested \$7.2 million for an 18% equity interest in Nephromics, LLC. Nephromics has licensed technology related to

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

the diagnosis of preeclampsia and has sub-licensed the technology to several major diagnostic companies for the development of diagnostic assays. The Company accounts for its investment in Nephromics using the equity method of accounting as Nephromics is a limited liability company.

Through February 2006, the Company had a 10% equity interest in Hemerus Medical, LLC (Hemerus). On March 1, 2006, the Company invested an additional \$750,000, increasing its ownership to 15% and on January 19, 2007, the Company invested an additional \$700,000, increasing its ownership to 18%. The Company accounts for its investment in Hemerus using the equity method of accounting because Hemerus is a limited liability company.

10

G. DEBT:

On October 31, 2006, the Company repaid its mortgage debt. The total payment of \$13.8 million included the mortgage principal balance, accrued interest and a 5% prepayment penalty of \$651,000. The prepayment penalty and \$78,000 of unamortized loan origination fees were included in interest expense for the quarter ended December 31, 2006.

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

Results of Operations for the Quarter and Nine Months Ended March 31, 2007
and the Quarter and Nine Months Ended March 31, 2006

Overview

TECHNE Corporation (the Company) has two operating subsidiaries: Research and Diagnostic Systems, Inc. (R&D Systems) and R&D Systems Europe Ltd. (R&D Europe). R&D Systems, located in Minneapolis, Minnesota, has two divisions: its Biotechnology Division and its Hematology Division. The Biotechnology Division develops and manufactures purified cytokines (proteins), antibodies and assay kits that are sold to biomedical researchers and clinical research laboratories. The Hematology Division develops and manufactures whole blood hematology controls and calibrators that are sold to hospitals and clinical laboratories to check the performance of hematology instruments to assure the accuracy of hematology test results. R&D Systems has two subsidiaries: Fortron Bio Science, Inc., (Fortron) which develops and manufactures monoclonal and polyclonal antibodies, antigens and other biological reagents, and is located in Minneapolis; and BiosPacific, Inc., (BiosPacific) a worldwide supplier of biologics to manufacturers of in vitro diagnostic systems (IVDs) and immunodiagnostic kits, located in Emeryville, California. R&D Europe, located in Abingdon, England, is the European distributor of R&D Systems' biotechnology products. R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France.

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 Bio Science, Inc. and BiosPacific, Inc., 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.

Overall Results

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

Consolidated net earnings increased 17.4% and 15.5% for the quarter and nine months ended March 31, 2007, respectively, compared to the quarter and nine months ended March 31, 2006. The primary reasons for the increase in consolidated net earnings were increased net sales and gross margins. Consolidated net sales for the quarter and nine months ended March 31, 2007, increased 9.8% and 9.6% from the same periods in the prior year. The favorable impact on consolidated net sales of the change from the prior year in exchange rates used to convert R&D Europe results from British pound sterling to U.S. dollars was \$1.9 million and \$4.2 million for the quarter and nine months ended March 31, 2007, respectively. The favorable impact on consolidated net earnings of the change from the prior year in exchange rates was \$601,000 and \$1.3 million for the quarter and nine months ended March 31, 2007, respectively. The Company generated cash of \$63.2 million from operating activities in the first nine months of fiscal 2007 and cash, cash equivalents and available-for-sale investments were \$230.0 million at March 31, 2007 compared to \$186.5 million at June 30, 2006.

11

Net Sales

Consolidated net sales for the quarter ended March 31, 2007 were \$60.2 million, an increase of \$5.4 million (9.8%) from the quarter ended March 31, 2006. Consolidated net sales for the nine months ended March 31, 2007 were \$165.1 million, an increase of \$14.5 million (9.6%) from the prior-year period.

Biotechnology net sales, which include sales by R&D Systems' Biotechnology Division, Fortron and BiosPacific, increased \$2.5 million (6.9%) and \$8.4 million (8.4%) for the quarter and nine months ended March 31, 2007, respectively. The Biotechnology net sales increase for the quarter and nine months was primarily due to \$1.6 million and \$5.5 million, respectively, in increased U.S. sales volume by the Biotechnology Division. Sales for the quarter and nine months to pharmaceutical/biotechnology customers and academic customers, the two largest end-user groups of the U.S. market, showed the greatest revenue growth over the prior year. Approximately \$1.2 million of the increase in Biotechnology net sales for the first nine months of fiscal 2007 was the result of price increases that were effective January 1, 2006.

R&D Europe net sales increased \$2.9 million (20.1%) and \$6.1 million (15.5%) for the quarter and nine months ended March 31, 2007, respectively. The effect of changes from the prior year in foreign currency exchange rates used to convert British pounds to U.S. dollars increased R&D Europe net sales approximately \$1.9 million and \$4.2 million for the quarter and nine months ended March 31, 2007, respectively. In British pounds, R&D Europe net sales increased 7.2% and 4.9% for the quarter and nine months ended March 31, 2007, respectively, mainly as a result of increased sales volume.

Hematology net sales decreased \$36,000 (1.0%) and \$23,000 (0.2%) for the quarter and nine months ended March 31, 2007 compared to the same prior-year periods.

Gross Margins

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

QUARTER ENDED	NINE MONTHS ENDED
-----	-----

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

	3/31/07	3/31/06	3/31/07	3/31/06
	-----	-----	-----	-----
Biotechnology	80.4%	78.8%	80.3%	78.2%
R&D Systems Europe	53.8%	49.2%	52.8%	50.0%
Hematology	43.1%	43.2%	42.4%	42.5%
Consolidated gross margin	80.0%	77.9%	79.4%	77.5%

Biotechnology gross margins as a percentage of net sales for the quarter and nine months ended March 31, 2007 of 80.4% and 80.3% increased from the prior year primarily due to changes in product mix. Biotechnology gross margins were also affected by the sale of inventory acquired from Fortron and BiosPacific in fiscal 2006, which was valued at fair market under purchase accounting. Included in cost of sales for the quarters ended March 31, 2007 and 2006 were \$100,000 and \$397,000, respectively, related to the sale of acquired inventory. Included in cost of sales for the nine months ended March 31, 2007 and 2006 were \$455,000 and \$1.3 million, respectively, related to the sale of acquired inventory. As of March 31, 2007, the total acquired inventory value has been expensed.

R&D Europe's gross margin percentages for the quarter and nine months ended March 31, 2007 were greater than the comparable prior-year periods as a result of favorable exchange rates.

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 not included in the inventory value. Sales of previously impaired protein and antibody inventory for the quarters and nine months ended March 31, 2007 and 2006 were not material.

12

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter and nine months ended March 31, 2007, increased \$328,000 (4.7%) and \$1.8 million (8.4%), respectively, from the same periods of last year. Selling, general and administrative expenses are composed of the following (in thousands):

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
	-----	-----	-----	-----
Biotechnology	\$ 4,166	\$ 4,199	\$ 12,843	\$ 12,032
R&D Europe	2,112	1,879	6,537	5,720
Hematology	431	441	1,268	1,249
Corporate	520	382	2,478	2,334
	-----	-----	-----	-----
Total selling, general and administrative expenses	\$ 7,229	\$ 6,901	\$ 23,126	\$ 21,335
	=====	=====	=====	=====

Biotechnology selling, general and administrative expenses decreased approximately \$33,000 (0.8%) for the quarter ended March 31, 2007 and increased \$811,000 (6.7%) for the nine months ended March 31, 2007, respectively. The decrease for the quarter ended March 31, 2007 was mainly due to a \$115,000 decrease in profit sharing expense from the same prior-year quarter. The increase for the nine months ended March 31, 2007 was mainly due to a \$528,000 increase in wages and benefits from the same prior-year period as a result of additional sales, marketing and administrative personnel and a \$141,000 increase in profit sharing expense from the prior-year period.

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

The increase in R&D Europe selling, general and administrative expenses of \$233,000 (12.4%) and \$817,000 (14.3%) for the quarter and nine months ended March 31, 2007, respectively, was primarily due to the change in exchange rates from the prior year used to convert from British pound sterling to U.S. dollars. In British pound sterling, R&D Europe selling, general and administrative expenses increased 0.4% and 3.9% for the quarter and nine months ended March 31, 2007, respectively.

Research and Development Expenses

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

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
Biotechnology	\$ 4,971	\$ 4,593	\$ 14,500	\$ 13,529
Hematology	198	168	568	523
Total research and development expenses	\$ 5,169	\$ 4,761	\$ 15,068	\$ 14,052

Interest Expense

On October 31, 2006, the Company repaid its mortgage debt. Included in interest expense for the nine months ended March 31, 2007 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.

13

	QUARTER ENDED		NINE MONTHS ENDED	
	3/31/07	3/31/06	3/31/07	3/31/06
Foreign currency (gains) losses	\$ 42	\$ (87)	\$ 63	\$ (13)
Rental income	(55)	(287)	(595)	(966)
Real estate taxes, depreciation and utilities	519	520	1,578	1,453
Hemerus Medical, LLC losses	119	83	369	247
Nephromics, LLC losses	142	--	265	--
Total other non-operating expense (income)	\$ 767	\$ 229	\$ 1,680	\$ 721

Through February 2006, the Company had a 10% equity interest in Hemerus Medical, LLC (Hemerus). On March 1, 2006, the Company invested an additional \$750,000, increasing its ownership to 15% and on January 19, 2007, the Company invested an additional \$700,000, increasing its ownership to 18%. At March 31, 2007, the Company's net investment in Hemerus was \$3.3 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

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

ability to raise financing and to 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 September 2006, 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 March 31, 2007, the Company's net investment in Nephromics was \$6.9 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 the quarter and nine months ended March 31, 2007 were provided at rates of 35.2% and 34.4%, respectively, of earnings before income taxes compared to 34.7% and 34.0% for the quarter and nine months ended March 31, 2006, respectively. The income tax rate for the quarter ended March 31, 2007 increased from the prior year and from prior quarters as a result of changes in state apportionment estimates. 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 operates. Without significant business developments, the Company expects income tax rates for the remainder of fiscal 2007 to range from approximately 33.5% to 34.5%.

Liquidity and Capital Resources

At March 31, 2007, cash and cash equivalents and available-for-sale investments were \$230.0 million compared to \$186.5 million at June 30, 2006. 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.

14

Cash Flows From Operating Activities

The Company generated cash of \$63.2 million from operating activities in the first nine months of fiscal 2007 compared to \$56.3 million in the first nine months of fiscal 2006. The increase from the prior year was primarily due to an increase in net earnings in the current year of \$8.3 million, partially offset by an increase in trade accounts receivable and inventories due to increased sales.

Cash Flows From Investing Activities

Capital expenditures for fixed assets for the first nine months of fiscal 2007 and 2006 were \$4.3 million and \$2.8 million, respectively. Included in capital expenditures for the first nine months of fiscal 2007 and 2006 were \$2.6 million and \$1.2 million, respectively, for building renovation and construction. The remaining capital additions in the first nine months of fiscal 2007 and 2006 were for laboratory and computer equipment. Expenditures for laboratory and computer equipment in the fourth quarter of fiscal 2007 are expected to be approximately \$1.0 million. The Company is

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

currently constructing additional laboratory space at its Minneapolis facility. The additional construction cost is estimated at \$5.4 million and is expected to be completed in mid-fiscal 2008. These expenditures are expected to be financed through currently available funds and cash generated from operating activities.

During the nine months ended March 31, 2007, the Company purchased \$34.2 million and had sales or maturities of \$17.7 million of available-for-sale investments. During the nine months ended March 31, 2006, the Company purchased \$73.8 million and had sales or maturities of \$53.4 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 September 2006, the Company invested \$7.2 million for an 18% equity interest in Nephromics, LLC and in January 2007, the Company invested an additional \$700,000 in Hemerus Medical, LLC, increasing its ownership percentage to 18%. The investments were financed through cash and equivalents on hand.

The Company acquired Fortron and BiosPacific effective July 1, 2005 for an aggregate purchase price of \$20 million. Cash acquired in the transactions was \$413,000. The net acquisition cost of \$19.6 million was financed through cash and equivalents on hand at July 1, 2005.

Cash Flows From Financing Activities

Cash of \$1.6 million and \$12.4 million was received during the nine months ended March 31, 2007 and 2006, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of \$329,000 and \$7.9 million for the nine months ended March 31, 2007 and 2006, respectively.

In the first nine months of fiscal 2007 and 2006, the Company purchased 22,400 shares and 22,541 shares of common stock, respectively, for its employee stock bonus plans at a cost of \$1.2 million and \$1.3 million, respectively.

In October 2006, the Company repaid its mortgage debt. The total payment of \$13.8 million included the mortgage principal balance, accrued interest and a 5% prepayment penalty of \$651,000. Cash and equivalents on hand were used to settle the debt.

The Company has never paid cash dividends and has no plans to do so in fiscal 2007.

15

Critical Accounting Policies

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2006. 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, accounting for the allowance for doubtful accounts, inventory valuation and allowances, impairment of goodwill, intangibles and other long-lived assets, accounting for investments and income taxes. There have been no significant changes in estimates in fiscal 2007 which would require disclosure. There have been no changes to the Company's policies in fiscal 2007.

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

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. The Statement replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires companies to apply voluntary changes in accounting principles retrospectively whenever practicable. The requirement is effective for the Company beginning in fiscal 2007. Adoption of the Statement did not have an impact on the Company's prior consolidated financial statements as it is prospective in nature.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 requires disclosures of additional quantitative and qualitative information regarding uncertain tax positions taken for tax-return purposes that have not been recognized for financial reporting, along with analysis of significant changes during each period. The Interpretation is effective for the Company in fiscal 2008. The Company is currently evaluating the provisions of FIN 48, but it is not expected to have a material impact on the Company's consolidated financial statements.

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, but it is not expected to have a material impact on the Company's consolidated financial statements.

In September 2006, the Securities and Exchange Commission released Staff Accounting Bulletin 108 (SAB 108). SAB 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the Company for fiscal year ended June 30, 2007. The Company is currently evaluating the impact of adopting SAB 108, but it is not expected to have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The Statement permits entities to choose to measure certain financial instruments at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company in fiscal 2009. The Company is currently evaluating the impact of adopting SFAS No. 159, but it is not expected to have a material impact on the Company's consolidated financial statements.

16

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 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,

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

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 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.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2007, the Company had a professionally managed investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$100.4 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 and the British pound to the U.S. dollar as the financial position and operating results of the Company's U.K. subsidiary and European operations 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 \$1.7 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. subsidiary to the U.S. subsidiary and from transferring funds from the German subsidiary and French sales office to the U.K. subsidiary. At March 31, 2007 and 2006, the Company had \$5.0 million and \$1.1 million, respectively, of dollar denominated intercompany debt at its U.K. subsidiary. At March 31, 2007 and 2006, the U.K. subsidiary had \$732,000 and \$729,000, 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 U.K. subsidiary recognized net foreign currency losses of 21,000 British pounds (\$42,000) and 36,000 British pounds (\$63,000) for the quarter and nine months ended March 31, 2007, respectively. For the quarter and nine months ended March 31, 2006, the Company's UK subsidiary recognized net foreign currency gains of 50,000 British pounds (\$87,000) and 8,000 British pounds (\$13,000), respectively. 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.

17

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

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

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.

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, 2006.

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 March 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
1/1/07 - 1/31/07	0	--	0	\$6.8 million
2/1/07 - 2/28/07	0	--	0	\$6.8 million
3/1/07 - 3/31/07	0	--	0	\$6.8 million

In May 1995, the Company announced a plan to purchase and retire its common stock. Repurchases of \$40 million were authorized as follows: May 1995 - \$5 million; April 1997 - \$5 million; January 2001 - \$10 million; October 2002 - \$20 million. The plan does not have an expiration date.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

18

ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

None.

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

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

See exhibit index following.

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: May 9, 2007

/s/ Thomas E. Oland

President, Chief Executive Officer

May 9, 2007

/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