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TECHNE CORP /MN/
Form 10-Q
February 08, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 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 February 5, 2010, 37,310,629 shares of the Company's Common Stock (par value \$.01) were outstanding.

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TECHNE CORPORATION
FORM 10-Q
DECEMBER 31, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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(in thousands, except share and per share data)
(unaudited)

| | 12/31/09 | 6/30/09 |
|---|-----------|-----------|
| | ----- | ----- |
| ASSETS | | |
| Cash and cash equivalents | \$195,551 | \$160,940 |
| Short-term available-for-sale investments | 53,928 | 41,947 |
| Trade accounts receivable, net | 26,159 | 29,516 |
| Other receivables | 1,642 | 1,637 |
| Inventories | 12,988 | 11,269 |
| Deferred income taxes | 9,686 | 9,345 |
| Prepaid expenses | 1,005 | 813 |
| | ----- | ----- |
| Total current assets | 300,959 | 255,467 |
| | ----- | ----- |
| Available-for-sale investments | 49,183 | 61,863 |
| Property and equipment, net | 98,910 | 100,133 |
| Goodwill | 25,068 | 25,068 |
| Intangible assets, net | 2,524 | 3,004 |
| Deferred income taxes | 3,736 | 3,601 |
| Investments in unconsolidated entities | 21,235 | 22,119 |
| Other assets | 618 | 750 |
| | ----- | ----- |
| | \$502,233 | \$472,005 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 4,780 | \$ 5,156 |
| Salaries, wages and related accruals | 3,121 | 4,010 |
| Other accounts payable and accrued expenses | 2,432 | 2,311 |
| Income taxes payable | 3,354 | 4,046 |
| | ----- | ----- |
| Total current liabilities | 13,687 | 15,523 |
| | ----- | ----- |
| Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 37,260,629 and 37,244,029 | 373 | 372 |
| Additional paid-in capital | 119,509 | 117,946 |
| Retained earnings | 378,139 | 345,641 |
| Accumulated other comprehensive loss | (9,475) | (7,477) |
| | ----- | ----- |
| Total stockholders' equity | 488,546 | 456,482 |
| | ----- | ----- |
| | \$502,233 | \$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
SIX MONTHS ENDED

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| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
|--|-----------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- |
| Net sales | \$ 65,521 | \$ 61,876 | \$132,055 | \$131,200 |
| Cost of sales | 13,329 | 13,430 | 26,230 | 26,516 |
| | ----- | ----- | ----- | ----- |
| Gross margin | 52,192 | 48,446 | 105,825 | 104,684 |
| | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | |
| Selling, general and administrative | 9,007 | 9,703 | 17,045 | 18,543 |
| Research and development | 6,391 | 5,846 | 12,545 | 11,756 |
| Amortization of intangible assets | 240 | 240 | 480 | 480 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 15,638 | 15,789 | 30,070 | 30,779 |
| | ----- | ----- | ----- | ----- |
| Operating income | 36,554 | 32,657 | 75,755 | 73,905 |
| | ----- | ----- | ----- | ----- |
| Other income (expense): | | | | |
| Interest income | 1,156 | 2,205 | 2,324 | 5,092 |
| Other non-operating expense, net | (1,011) | (712) | (1,673) | (1,899) |
| | ----- | ----- | ----- | ----- |
| Total other income | 145 | 1,493 | 651 | 3,193 |
| | ----- | ----- | ----- | ----- |
| Earnings before income taxes | 36,699 | 34,150 | 76,406 | 77,098 |
| Income taxes | 11,978 | 10,528 | 24,913 | 24,883 |
| | ----- | ----- | ----- | ----- |
| Net earnings | \$ 24,721 | \$ 23,622 | \$ 51,493 | \$ 52,215 |
| | ===== | ===== | ===== | ===== |
| Earnings per share: | | | | |
| Basic | \$ 0.66 | \$ 0.62 | \$ 1.38 | \$ 1.36 |
| Diluted | \$ 0.66 | \$ 0.62 | \$ 1.38 | \$ 1.36 |
| Cash dividends per common share | \$ 0.26 | \$ 0.25 | \$ 0.51 | \$ 0.25 |
| Weighted average common shares outstanding: | | | | |
| Basic | 37,252 | 37,894 | 37,248 | 38,259 |
| Diluted | 37,353 | 37,992 | 37,346 | 38,370 |

See notes to condensed consolidated financial statements.

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

| | SIX MONTHS ENDED | |
|--|------------------|-----------|
| | ----- | ----- |
| | 12/31/09 | 12/31/08 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 51,493 | \$ 52,215 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,065 | 3,875 |
| Deferred income taxes | (577) | (648) |
| Stock-based compensation expense | 879 | 1,240 |

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| | | |
|---|-----------|-----------|
| Excess tax benefit from stock option exercises | (51) | (72) |
| Losses by equity method investees | 834 | 545 |
| Other | 75 | 217 |
| Change in operating assets and operating liabilities: | | |
| Trade accounts and other receivables | 3,286 | 4,011 |
| Inventories | (2,068) | (1,078) |
| Prepaid expenses | (194) | 14 |
| Trade accounts and other accounts payable and accrued expenses | (585) | 202 |
| Salaries, wages and related accruals | (281) | (2,696) |
| Income taxes payable | (614) | (4,520) |
| | ----- | ----- |
| Net cash provided by operating activities | 56,262 | 53,305 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment | (2,155) | (2,117) |
| Purchase of available-for-sale investments | (12,420) | (40,473) |
| Proceeds from sales of available-for-sale investments | 1,122 | 36,439 |
| Proceeds from maturities of available-for-sale investments | 12,405 | 23,475 |
| Distribution from unconsolidated entity | 50 | 1,340 |
| | ----- | ----- |
| Net cash (used in) provided by investing activities | (998) | 18,664 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock | 634 | 856 |
| Excess tax benefit from stock option exercises | 51 | 72 |
| Purchase of common stock for stock bonus plans | (607) | (1,681) |
| Dividends paid | (18,996) | (9,507) |
| Repurchase and retirement of common stock | -- | (78,313) |
| | ----- | ----- |
| Net cash used in financing activities | (18,918) | (88,573) |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | (1,735) | (30,793) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 34,611 | (47,397) |
| Cash and cash equivalents at beginning of period | 160,940 | 166,992 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$195,551 | \$119,595 |
| | ===== | ===== |

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

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reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 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 February 8, 2010, the date these condensed consolidated financial statements were issued.

Fair value measurements:

The Company's available-for-sale securities of \$103 million at December 31, 2009 are carried at fair value and are valued using quoted market prices in active markets (Level 1 input) for identical assets and liabilities.

Financial instruments not measured at fair value:

Certain of the Company's financial instruments are not measured at fair value but nevertheless are recorded at carrying amounts approximating fair value, based on their short-term nature. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and other current liabilities.

Nonfinancial assets measured at fair value on a nonrecurring basis:

The Company's goodwill, intangible assets and other long-lived assets are nonfinancial assets that were acquired either as part of a business combination, individually or with a group of other assets. These nonfinancial assets were initially, and are currently, measured and recognized at amounts equal to the fair value determined as of the date of acquisition. Periodically, these nonfinancial assets are tested for impairment, by comparing their respective carrying values to the estimated fair value of the reporting unit or operating segment upon which they reside. In the event any of these nonfinancial assets were to become impaired, the Company would recognize an impairment loss equal to the amount by which the carrying value of the impaired asset or asset group exceeds its estimated fair value. Fair value measurements of reporting units or operating segments are estimated using an income approach involving discounted or undiscounted cash flow models that contain certain Level 3 inputs requiring management judgment, including projections of economic conditions and customer demand, revenue and margins, changes in competition, operating costs, working capital requirements, and new product introductions. Fair value measurements of the reporting units associated with the Company's goodwill balances are estimated at least annually in the fourth quarter of each fiscal year for purposes of impairment testing. Fair value measurements of the operating segments associated with the Company's intangible assets and other long-lived assets are estimated when events or changes in circumstances such as market value, asset utilization, physical change, legal factors, or other matters indicate that the carrying value may not be recoverable.

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Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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 adopted the ASC when referring to GAAP in the first quarter of fiscal 2010. The adoption of the ASC did not have an impact on the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, 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 Emerging Issues Task Force (EITF) No. 08-6, Equity-Method Accounting Considerations, now codified in ASC Topic 323. EITF No. 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 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 No. 08-6 is effective for the Company for fiscal year 2010. Adoption of EITF No. 08-6 did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, 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.

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B. BALANCE SHEET

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

| | 12/31/09 | 6/30/09 |
|---------------------------------|-----------|-----------|
| | ----- | ----- |
| TRADE ACCOUNTS RECEIVABLE | | |
| Trade accounts receivable | \$ 26,424 | \$ 29,873 |
| Allowance for doubtful accounts | (265) | (357) |
| | ----- | ----- |

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| | | |
|--|-------------|------------|
| NET TRADE ACCOUNTS RECEIVABLE | \$ 26,159 | \$ 29,516 |
| | ===== | ===== |
| INVENTORIES | | |
| Raw materials | \$ 5,389 | \$ 4,905 |
| Supplies | 144 | 142 |
| Finished goods | 7,455 | 6,222 |
| | ----- | ----- |
| TOTAL INVENTORIES | \$ 12,988 | \$ 11,269 |
| | ===== | ===== |
| PROPERTY AND EQUIPMENT | | |
| Land | \$ 7,518 | \$ 7,538 |
| Buildings and improvements | 117,852 | 116,662 |
| Laboratory equipment | 25,657 | 24,759 |
| Office equipment | 4,886 | 4,746 |
| | ----- | ----- |
| | 155,913 | 153,705 |
| Accumulated depreciation and amortization | (57,003) | (53,572) |
| | ----- | ----- |
| NET PROPERTY AND EQUIPMENT | \$ 98,910 | \$ 100,133 |
| | ===== | ===== |
| INTANGIBLE ASSETS | | |
| Customer relationships | \$ 1,966 | \$ 1,966 |
| Technology | 3,483 | 3,483 |
| Trade names | 1,396 | 1,396 |
| | ----- | ----- |
| | 6,845 | 6,845 |
| Accumulated amortization | (4,321) | (3,841) |
| | ----- | ----- |
| NET INTANGIBLE ASSETS | \$ 2,524 | \$ 3,004 |
| | ===== | ===== |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Foreign currency translation adjustments | (\$ 10,217) | (\$ 8,035) |
| Unrealized gains on available-for-sale investments | 742 | 558 |
| | ----- | ----- |
| TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS | (\$ 9,475) | (\$ 7,477) |
| | ===== | ===== |

C. INCOME TAXES

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$149 million as of December 31, 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 amounts being considered for repatriation would not result in a material amount of additional U.S. tax liability.

The Company's fiscal 2006 U.S. tax return is currently under audit by the Internal Revenue Service. The Company does not believe the result of the audit will have a material impact on the Company's consolidated financial statements.

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D. EARNINGS PER SHARE:

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

| | |
|---------------|------------------|
| QUARTER ENDED | SIX MONTHS ENDED |
|---------------|------------------|

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| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
|---|----------|----------|----------|----------|
| Weighted average common shares outstanding-basic | 37,252 | 37,894 | 37,248 | 38,259 |
| Dilutive effect of stock options and warrants | 101 | 98 | 98 | 111 |
| Weighted average common shares outstanding-diluted | 37,353 | 37,992 | 37,346 | 38,370 |

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 2,000 for both the quarter and six months ended December 31, 2009 and 61,000 and 37,000 for the quarter and six months ended December 31, 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 | | SIX MONTHS ENDED | |
|---|---------------|-----------|------------------|-----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| External sales | | | | |
| Biotechnology | \$ 42,421 | \$ 40,332 | \$ 86,449 | \$ 86,469 |
| R&D Europe | 18,775 | 17,284 | 36,613 | 36,225 |
| Hematology | 4,325 | 4,260 | 8,993 | 8,506 |
| Consolidated net sales | \$ 65,521 | \$ 61,876 | \$132,055 | \$131,200 |
| Earnings before income taxes | | | | |
| Biotechnology | \$ 29,333 | \$ 27,249 | \$ 60,913 | \$ 60,588 |
| R&D Europe | 7,981 | 7,817 | 15,860 | 17,539 |
| Hematology | 1,538 | 1,345 | 3,391 | 2,695 |
| Segment earnings before income taxes | 38,852 | 36,411 | 80,164 | 80,822 |
| Unallocated corporate expenses and equity method investee losses | (2,153) | (2,261) | (3,758) | (3,724) |
| Consolidated earnings before income taxes | \$ 36,699 | \$ 34,150 | \$ 76,406 | \$ 77,098 |

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F. STOCK OPTIONS:

Option activity under the Company's stock option plans during the six months ended December 31, 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 | 37 | \$63.00 | | |
| Exercised | (17) | \$38.20 | | |
| Forfeited or expired | -- | -- | | |
| | --- | | | |
| Outstanding at December 31, 2009 | 418 === | \$51.13 | 4.9 | \$7.3 million |
| Exercisable at December 31, 2009 | 399 === | \$50.69 | 4.9 | \$7.2 million |

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

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|--|---------------|----------|------------------|-----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Dividend yield | 1.6% | -- | 1.6% | -- |
| Expected annualized volatility | 30% | 37% | 24%-30% | 24%-37% |
| Risk free interest rate | 3.1% | 3.2% | 2.5%-3.1% | 3.2%-3.5% |
| Expected life | 8 years | 8 years | 7 years | 8 years |
| Weighted average fair value of options granted | \$19.90 | \$30.70 | \$19.53 | \$30.26 |

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 determining option fair value.

The total intrinsic value of options exercised during the quarter and six months ended December 31, 2009 was \$449,000 and \$465,000, respectively. The total intrinsic value of options exercised during the quarter and six months ended December 31, 2008 was \$22,000 and \$552,000, respectively. Stock option exercises were satisfied through the issuance of new shares. The total fair value of options vested during the quarter and six months ended December 31, 2009 was \$697,000 and \$717,000, respectively. The total fair value of options vested during both the quarter and six months ended December 31, 2008 was \$1.1 million.

Stock-based compensation cost of \$777,000 and \$879,000 was included in selling, general and administrative expense for the quarter and six months ended December 31, 2009, respectively. Stock-based compensation cost of \$1.1 million and \$1.2 million was included in selling, general and administrative

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expense for the quarter and six months ended December 31, 2008, respectively. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of December 31, 2009, there was \$117,000 of total unrecognized compensation cost related to non-vested stock options that will be expensed in fiscal 2010.

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G. COMPREHENSIVE INCOME:

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

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|--|---------------|-----------|------------------|-----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Net earnings | \$ 24,721 | \$ 23,622 | \$ 51,493 | \$ 52,215 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | 1,113 | (20,510) | (2,182) | (34,641) |
| Unrealized (loss) gain on available-for-sale investments, net of tax | (40) | (19) | 184 | 1,443 |
| Comprehensive income | \$ 25,794 | \$ 3,093 | \$ 49,495 | \$ 19,017 |

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.

Results of Operations for the Quarters and Six Months Ended December 31, 2009 and 2008

Consolidated net sales and consolidated net earnings increased 5.9% and 4.6%, respectively, for the quarter ended December 31, 2009 compared to the quarter ended December 31, 2008. Consolidated net sales for the six months ended

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December 31, 2009 increased 0.7% and consolidated net earnings decreased 1.4%, respectively, compared to the six months ended December 31, 2008. Consolidated net sales and net earnings were favorably affected by the weakening of the U.S. dollar as compared to foreign currencies for the quarter and six ended December 31, 2009. The favorable 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 \$2.6 million and \$1.4 million for the quarter and six months ended December 31, 2009, respectively. The favorable 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 \$572,000 and \$6,000 for the quarter and six months ended December 31, 2009, respectively. In the first six months of fiscal 2010, the Company generated cash of \$56.3 million from operating activities, paid cash dividends of \$19.0 million and had cash, cash equivalents and available-for-sale investments of \$299 million at December 31, 2009 compared to \$265 million at June 30, 2009.

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Net Sales

Consolidated net sales for the quarter and six months ended December 31, 2009 were \$65.5 million and \$132.1 million, respectively, increases of \$3.6 million (5.9%) and \$855,000 (0.7%) from the quarter and six months ended December 31, 2008. Excluding the effect of changes in foreign currency exchange rates, consolidated net sales increased 1.6% and decreased 0.4% for the quarter and six months ended December 31, 2009 from the comparable prior-year periods. Included in consolidated net sales for the quarter and six months ended December 31, 2009 was \$663,000 and \$910,000 of sales of new biotechnology products which had their first sale in fiscal 2010.

Biotechnology net sales increased \$2.1 million (5.2%) and decreased \$20,000, respectively, for the quarter and six months ended December 31, 2009 compared to the same prior-year periods. The increase in the quarter was mainly as a result of increased sales volume. North American biotechnology sales to industrial pharmaceutical and biotechnology customers increased 5.7% during the quarter ended December 31, 2009. Biotechnology sales to academic, Pacific Rim distributors and China grew 4.5%, 13.0% and 21.8%, respectively, during the second quarter of fiscal 2010 compared to the same prior-year period. A 12.8% decline in sales to industrial pharmaceutical and biotechnology customers in the first quarter of fiscal 2010 more than offset the second quarter sales growth. Sales to North American industrial pharmaceutical and biotechnology customers decreased 4.7% during the six months ended December 31, 2009 as compared to the first six months of fiscal 2009. Biotechnology sales to academic, Pacific Rim distributors and China grew 4.3%, 9.5% and 25.8%, respectively, in the first six months of fiscal 2010.

R&D Europe net sales increased \$1.5 million (8.6%) and \$388,000 (1.1%) for the quarter and six months ended December 31, 2009, respectively, from the comparable prior-year periods. R&D Europe's net sales decreased 6.6% and 2.8% for the quarter and six months ended December 31, 2009 when measured at currency rates in effect in the comparable prior-year periods. The decreased net sales for the periods was mainly the result of lower sales to pharmaceutical customers. 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 \$1.6 million and \$2.7 million, respectively, for the quarter and six months ended December 31, 2009 as a result of the change in exchange rates used to convert sales in other currencies to British pounds sterling. In addition, consolidated net sales were impacted favorably by \$1.0 million and unfavorably by \$1.3 million for the quarter and six months ended December 31, 2009, respectively, as a result

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of the change in exchange rates used to convert British pound sterling to U.S. dollars.

Hematology sales increased \$65,000 (1.5%) and \$487,000 (5.7%) for the quarter and six months ended December 31, 2009 compared to the same prior-year periods, as a result of increased sales volume.

Gross Margins

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

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|---------------------------|---------------|----------|------------------|----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Biotechnology | 80.0% | 77.2% | 80.5% | 79.2% |
| R&D Europe | 53.9% | 52.1% | 53.7% | 55.3% |
| Hematology | 47.0% | 43.5% | 48.7% | 43.9% |
| Consolidated gross margin | 79.7% | 78.3% | 80.1% | 79.8% |

Consolidated gross margins, as a percentage of consolidated net sales, increased from 78.3% and 79.8% for the quarter and six months ended December 31, 2008 to 79.7% and 80.1% for the quarter and six months ended December 31, 2009. The increases were primarily the result of improved margins in the Biotechnology and Hematology Divisions due to incremental profit on increased sales volumes.

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Selling, General and Administrative Expenses

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

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|---|---------------|----------|------------------|-----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Biotechnology | \$ 5,056 | \$ 5,418 | \$ 9,790 | \$ 10,559 |
| R&D Europe | 2,159 | 2,094 | 4,111 | 4,377 |
| Hematology | 366 | 398 | 736 | 834 |
| Unallocated corporate expenses | 1,426 | 1,793 | 2,408 | 2,773 |
| Consolidated selling, general and administrative expenses | \$ 9,007 | \$ 9,703 | \$ 17,045 | \$ 18,543 |

Selling, general and administrative expenses for the quarter and six months ended December 31, 2009 decreased \$696,000 (7.2%) and \$1.5 million (8.1%), respectively, from the same prior-year periods. The decrease in selling, general and administrative expense for the quarter ended December 31, 2009 from the comparable prior-year period resulted mainly from lower stock compensation expense of \$361,000. The decrease in selling, general and administrative expenses for the six months ended December 31, 2009 from the comparable prior-year period was due to lower stock compensation expense of \$361,000 and lower profit sharing expense of \$725,000. The remainder of the decrease in selling, general and administrative expenses for the quarter and six months was due to general cost containment efforts.

Research and Development Expenses

Research and development expenses were composed of the following (in

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thousands):

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|--|---------------|----------|------------------|-----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Biotechnology | \$ 6,190 | \$ 5,643 | \$ 12,146 | \$ 11,360 |
| R&D Europe | -- | -- | -- | -- |
| Hematology | 201 | 203 | 399 | 396 |
| Consolidated research and development expenses | \$ 6,391 | \$ 5,846 | \$ 12,545 | \$ 11,756 |

Research and development expenses for the quarter and six months ended December 31, 2009 increased \$545,000 (9.3%) and \$789,000 (6.7%), respectively, from the quarter and six months ended December 31, 2008. The increase in research and development expenses is the result of continuous development and release of new high-quality biotechnology products upon which the Company's future sales revenue growth is dependent.

Interest Income

Interest income decreased \$1.0 million and \$2.8 million for the quarter and six months ended December 31, 2009, respectively, from the comparable prior-year periods, primarily as a result of lower rates of return on cash and available-for-sale investments.

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Other Non-operating Expense and Income

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

| | QUARTER ENDED | | SIX MONTHS ENDED | |
|---|---------------|----------|------------------|------------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| Foreign currency (losses) gains | (\$ 100) | (\$ 6) | \$ 43 | (\$ 480) |
| Rental income | 115 | 131 | 196 | 230 |
| Real estate taxes, depreciation and utilities | (530) | (551) | (1,078) | (1,104) |
| Losses by equity method investees | (496) | (286) | (834) | (545) |
| Consolidated other non-operating expense | (\$ 1,011) | (\$ 712) | (\$ 1,673) | (\$ 1,899) |

Income Taxes

Income taxes for both the quarter and six months ended December 31, 2009 were provided at rates of 32.6% of consolidated earnings before income taxes, as compared to 30.8% and 32.3% for the same prior-year periods. 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 lower effective tax rate for the quarter ended December 31, 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 December 31, 2009, cash and cash equivalents and available-for-sale investments were \$299 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 \$56.3 million from operating activities in the first six months of fiscal 2010 compared to \$53.3 million in the first six months 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 \$722,000.

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Cash Flows From Investing Activities

Capital expenditures for fixed assets for the first six months of fiscal 2010 and 2009 were \$2.2 million and \$2.1 million, respectively. Included in capital expenditures for the first six months of fiscal 2010 was \$960,000 related to remodeling of laboratory space at the Company's Minneapolis facility. The remaining capital additions in fiscal 2010 and the capital additions in fiscal 2009 were for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2010 are expected to be approximately \$3.7 million and are expected to be financed through currently available funds and cash generated from operating activities.

During the six months ended December 31, 2009, the Company purchased \$12.4 million and had sales or maturities of \$13.5 million of available-for-sale investments. During the six months ended December 31, 2008, the Company purchased \$40.5 million and had sales or maturities of \$59.9 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 six months ended December 31, 2009 and 2008, the Company received \$50,000 and \$1.3 million, respectively, in distributions 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 \$634,000 and \$856,000 was received during the six months ended December 31, 2009 and 2008, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of \$51,000 and \$72,000 for the six months ended December 31, 2009 and 2008, respectively.

During the first six months of fiscal 2010 and 2009, the Company purchased

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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 six months of fiscal 2010 and 2009, the Company paid cash dividends of \$19.0 million and \$9.5 million, respectively, to all common shareholders. On February 2, 2010, the Company announced the payment of a \$0.26 per share cash dividend. The dividend of approximately \$9.7 million will be payable February 26, 2010 to all common shareholders of record on February 12, 2010.

During the first six months of fiscal 2009, the Company purchased and retired approximately 1.2 million shares of common stock at a market value of \$78.3 million.

Contractual Obligations

There were no material changes outside the ordinary course of business in the Company's contractual obligations during the six months ended December 31, 2009.

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

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 tax audit, 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, the success of financing efforts by companies in which the Company has invested, and the success of the Company's expansion

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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 December 31, 2009, the Company had an independently managed investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$103 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.

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Month-end average exchange rates between the British pound sterling, euro and 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 | | SIX MONTHS ENDED | |
|------------------------|---------------|----------|------------------|----------|
| | 12/31/09 | 12/31/08 | 12/31/09 | 12/31/08 |
| British pound sterling | \$ 1.63 | \$ 1.54 | \$ 1.63 | \$ 1.70 |
| Euro | 1.47 | 1.31 | 1.45 | 1.40 |
| Chinese yuan | .147 | .146 | .146 | .146 |

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 December 31, 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 | 398 Br. pounds | \$ 644 |
| Other European currencies | 569 Br. pounds | \$ 919 |
| Intercompany payable in: | | |
| Euros | 233 Br. pounds | \$ 377 |
| U.S. dollars | 2,833 Br. pounds | \$ 4,578 |
| U.S. dollars | 4,217 yuan | \$ 605 |

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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 December 31, 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) | (\$2,150) |
| Transaction losses | 471 |
| Translation of net assets of foreign subsidiaries | (13,056) |

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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 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.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

In a previously disclosed lawsuit filed by Streck, Inc. (Streck), venued in the U.S. District Court for the District of Nebraska (the Nebraska Court), 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

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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 Systems 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 \$40,000) 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.

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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 December 31, 2009:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|---|------------------------------------|--|---|
| | ----- | ----- | ----- | ----- |
| 10/1/09-10/31/09 | 0 | \$ -- | 0 | \$67.5 million |
| 11/1/09-11/30/09 | 0 | \$ -- | 0 | \$67.5 million |
| 12/1/09-12/31/09 | 0 | \$ -- | 0 | \$67.5 million |

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.

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ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

Information relating to the Company's Annual Meeting of Shareholders, held on October 29, 2009 is contained in the Company's Form 10-Q for the quarter ended September 30, 2009, which is incorporated herein by reference.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

See "exhibit index" following the signature page.

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SIGNATURES

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

TECHNE CORPORATION
(Company)

Date: February 8, 2010 /s/ Thomas E. Oland

President, Chief Executive Officer

Date: February 8, 2010 /s/ Gregory J. Melsen

Chief Financial Officer

EXHIBIT INDEX
TO
FORM 10-Q

TECHNE CORPORATION

| Exhibit # | Description |
|-----------|---------------------------|
| ----- | ----- |
| 31.1 * | Section 302 Certification |

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- 31.2 * Section 302 Certification
- 32.1 * Section 906 Certification
- 32.2 * Section 906 Certification

*Filed herewith

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