

TECHNE CORP /MN/  
Form 10-Q  
February 04, 2014  
Table of Contents

**UNITED STATES**  
**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, 2013, 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**

**(612) 379-8854**

**(Address of principal executive offices) (Zip Code) (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  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 (§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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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  No

At January 31, 2014, 36,900,781 shares of the Company's Common Stock (par value \$0.01) were outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Earnings and Comprehensive Income for the Quarters and Six Months Ended December 31, 2013 and 2012</u>	1
<u>Condensed Consolidated Balance Sheets as of December 31, 2013 and June 30, 2013</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2013 and 2012</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	14
Item 4. <u>Controls and Procedures</u>	15
<b><u>PART II: OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	16
Item 1A. <u>Risk Factors</u>	16
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults Upon Senior Securities</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
Item 5. <u>Other Information</u>	17
Item 6. <u>Exhibits</u>	17
<u>SIGNATURES</u>	18

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****AND COMPREHENSIVE INCOME***TECHNE Corporation and Subsidiaries**(in thousands, except per share data)**(unaudited)*

	<i>Quarter Ended</i>		<i>Six Months Ended</i>	
	<i>December 31,</i>		<i>December 31,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Net sales	\$ 84,017	\$ 75,083	\$ 169,685	\$ 150,108
Cost of sales	25,424	19,820	49,978	39,262
Gross margin	58,593	55,263	119,707	110,846
Operating expenses:				
Selling, general and administrative	14,926	10,956	28,947	21,284
Research and development	7,923	7,403	15,625	14,855
Total operating expenses	22,849	18,359	44,572	36,139
Operating income	35,744	36,904	75,135	74,707
Other income (expense):				
Interest income	545	677	1,112	1,338
Other non-operating expense, net	(71)	(135)	(375)	(613)
Total other income (expense)	474	542	737	725
Earnings before income taxes	36,218	37,446	75,872	75,432
Income taxes	11,163	12,082	23,389	24,400
Net earnings	25,055	25,364	52,483	51,032
Other comprehensive income (loss):				
Foreign currency translation adjustments	3,344	1,107	11,246	5,032
Unrealized gains (losses) on available-for-sale investments, net of tax of \$467, (\$1,680), (\$16,929) and (\$9,269), respectively	1,024	(2,998)	(35,752)	(16,557)

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Other comprehensive income (loss)	4,368	(1,891)	(24,506)	(11,525)
Comprehensive (loss) income	\$ 29,423	\$ 23,473	\$ 27,977	\$ 39,507
Earnings per share:				
Basic	\$ 0.68	\$ 0.69	\$ 1.42	\$ 1.39
Diluted	\$ 0.68	\$ 0.69	\$ 1.42	\$ 1.38
Cash dividends per common share:	\$ 0.31	\$ 0.30	\$ 0.61	\$ 0.58
Weighted average common shares outstanding:				
Basic	36,882	36,834	36,862	36,831
Diluted	37,015	36,900	36,968	36,897

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CONDENSED CONSOLIDATED BALANCE SHEETS***TECHNE Corporation and Subsidiaries**(in thousands, except share and per share data)*

	<i>December 31,</i> <i>2013</i> <i>(unaudited)</i>	<i>June 30,</i> <i>2013</i>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 98,402	\$ 163,786
Short-term available-for-sale investments	88,454	169,151
Trade accounts receivable, less allowance for doubtful accounts of \$494 and \$428, respectively	38,306	38,183
Other receivables	2,129	1,992
Deferred income taxes	9,878	0
Inventories	39,992	34,877
Prepaid expenses	1,980	1,527
Total current assets	279,141	409,516
Available-for-sale investments	162,590	132,376
Property and equipment, net	115,159	108,756
Goodwill	144,361	84,336
Intangible assets, net	98,546	40,552
Other assets	2,368	2,562
	\$ 802,165	\$ 778,098
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 7,163	\$ 6,236
Salaries, wages and related accruals	5,174	4,025
Accrued expenses	7,954	9,603
Income taxes payable	1,818	2,276
Deferred income taxes	0	9,944
Total current liabilities	22,109	32,084
Deferred income taxes	31,528	8,473
Shareholders equity:		
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 36,900,781 and 36,834,678, respectively	369	368
Additional paid-in capital	140,390	134,895

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Retained earnings	617,722	587,725
Accumulated other comprehensive income	(9,953)	14,553
Total shareholders equity	748,528	737,541
	\$ 802,165	\$ 778,098

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***TECHNE Corporation and Subsidiaries**(in thousands)**(unaudited)*

	<i>Six Months Ended</i>	
	<i>December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 52,483	\$ 51,032
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,946	6,278
Costs recognized on sale of acquired inventory	3,135	2,464
Deferred income taxes	(3,006)	(1,487)
Stock-based compensation expense	1,895	1,088
Excess tax benefit from stock option exercises	(40)	(64)
Losses by equity method investees	0	83
Other	316	212
Change in operating assets and operating liabilities, net of acquisition:		
Trade accounts and other receivables	2,891	3,645
Inventories	(1,243)	(1,362)
Prepaid expenses	31	(193)
Trade accounts payable and accrued expenses	(994)	260
Salaries, wages and related accruals	143	(390)
Income taxes payable	(650)	(1,016)
Net cash provided by operating activities	63,907	60,550
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition, net of cash acquired	(103,149)	0
Purchase of available-for-sale investments	(71,877)	(42,620)
Proceeds from sales of available-for-sale investments	34,345	16,537
Proceeds from maturities of available-for-sale investments	34,193	22,322
Additions to property and equipment	(7,458)	(10,735)
Distribution from unconsolidated entity	85	0
Increase in other long-term assets	(55)	(424)
Net cash used in investing activities	(113,916)	(14,920)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends	(22,485)	(21,360)
Proceeds from stock option exercises	3,560	824
Excess tax benefit from stock option exercises	40	64



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Purchase of common stock for stock bonus plans	0	(573)
Net cash used in financing activities	(18,885)	(21,045)
Effect of exchange rate changes on cash and cash equivalents	3,510	2,026
Net increase in cash and cash equivalents	(65,384)	26,611
Cash and cash equivalents at beginning of period	163,786	116,675
Cash and cash equivalents at end of period	\$ 98,402	\$ 143,286

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*TECHNE Corporation and Subsidiaries*

*(unaudited)*

***A. Basis of Presentation:***

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

A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 2013. 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, 2013, included in the Company's Annual Report on Form 10-K for fiscal 2013.

***B. Acquisition***

On July 22, 2013, the Company's R&D Systems subsidiary acquired for cash all of the outstanding shares of Bionostics Holdings, Ltd. (Bionostics) and its U.S. operating subsidiary, Bionostics, Inc. Bionostics is a global leader in the development, manufacture and distribution of control solutions that verify the proper operation of *in-vitro* diagnostic devices primarily utilized in point of care blood glucose and blood gas testing. Bionostics is included in the Company's Clinical Controls segment.

In connection with the Bionostics acquisition, the Company recorded \$14.4 million of developed technology intangible assets that have an estimated useful life of 9 years, \$2.7 million of trade name intangible assets that have an estimated useful life of 5 years, \$2.4 million related to non-compete agreements that have an estimated useful life of 3 years, and \$41.0 million related to customer relationships that have an estimated useful life of 14 years. The intangible asset amortization is not deductible for income tax purposes.

The goodwill recorded as a result of the Bionostics acquisition represents the strategic benefits of growing the Company's product portfolio and the expected revenue growth from increased market penetration from future products and customers. The goodwill is not deductible for income tax purposes.

Transaction costs of \$532,000 and \$607,000 were included in the Company's selling, general and administrative costs during the quarters ended September 30, 2013 and June 30, 2013, respectively.

The aggregate purchase price of the acquisition was allocated to the assets acquired and liabilities assumed based on their preliminarily estimated fair values at the date of acquisition. The preliminary estimate of the excess of purchase price over the fair value of net tangible assets acquired was allocated to identifiable intangible assets and goodwill. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of

the Bionostics acquisition (in thousands):

4

**Table of Contents**

Current assets	\$ 9,605
Intangible Assets	60,500
Goodwill	56,349
Equipment	2,180
<b>Total assets acquired</b>	<b>128,634</b>
Liabilities	3,007
Deferred income taxes	22,478
 Net assets acquired	 \$ 103,149
 Cash paid, net of cash acquired	 \$ 103,149

Tangible assets acquired, net of liabilities assumed, were stated at fair value at the date of acquisition based on management's assessment. The purchase price allocated to developed technology, trade names, non-compete agreements and customer relationships was based on management's forecasted cash inflows and outflows and using a relief-from-royalty and a multi-period excess earnings method to calculate the fair value of assets purchased. The developed technology is being amortized with the expense reflected in cost of goods sold in the Condensed Consolidated Statement of Earnings and Comprehensive Income. Amortization expense related to trade names, the non-compete agreement and customer relationships is reflected in selling, general and administrative expenses in the Consolidated Statement of Earnings and Comprehensive Income. The deferred income tax liability represents the estimated future impact of adjustments for the cost to be recognized upon the sale of acquired inventory that was written up to fair value and intangible asset amortization, both of which are not deductible for income tax purposes.

The Company's condensed consolidated financial statements for the quarter and six months ended December 31, 2013, include Bionostics net sales of \$8.0 million and \$14.2 million, respectively, and net income of \$292,000 and \$276,000, respectively. Included in Bionostics results for the quarter and six months ended December 31, 2013 were amortization of intangibles of \$1.5 million and \$2.6 million, respectively and costs recognized on the sales of acquired inventory of \$458,000 and \$1.1 million, respectively.

**C. Available-For-Sale Investments:**

The Company's available-for-sale securities are carried at fair value using Level 1 and Level 2 inputs. The fair value of the Company's available-for-sale investments at December 31, 2013 and June 30, 2013 were \$251 million and \$302 million, respectively. The amortized cost basis of the Company's available-for-sale investments at December 31, 2013 and June 30, 2013 were \$243 million and \$241 million, respectively.

Included in the Company's available-for-sale securities is an investment in the common stock and warrants of ChemoCentryx (CCXI). The fair value of the Company's investment was \$36.7 million and \$89.6 million at December 31, 2013 and June 30, 2013, respectively. The cost basis of the Company's investment in CCXI was \$29.5 million at both December 31, 2013 and June 30, 2013.

**D. Inventories:**

Inventories consist of (in thousands):

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	<i>December 31,</i> <i>2013</i>	<i>June 30,</i> <i>2013</i>
Raw materials	\$ 9,121	\$ 5,885
Finished goods	30,871	28,992
	\$ 39,992	\$ 34,877

**Table of Contents**

***E. Property and Equipment:***

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