TECHNE CORP /MN/
Form 10-Q
May 12, 2014
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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 March 31, 2014, 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	**41-1427402**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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 (§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 x 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	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 May 6, 2014, 36,995,015 shares of the Company s Common Stock (par value $0.01) were outstanding.

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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)

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Net sales	$ 95,555	$ 80,992	$ 265,240	$ 231,100
Cost of sales	27,444	19,845	77,422	59,107
Gross margin	68,111	61,147	187,818	171,993
Operating expenses:				
Selling, general and administrative	14,666	9,982	43,613	31,266
Research and development	7,676	7,219	23,301	22,074
Total operating expenses	22,342	17,201	66,914	53,340
Operating income	45,769	43,946	120,904	118,653
Other income (expense):				
Interest income	529	638	1,641	1,976
Other non-operating expense, net	(229)	(118)	(604)	(731)
Total other income (expense)	300	520	1,037	1,245
Earnings before income taxes	46,069	44,466	121,941	119,898
Income taxes	14,428	11,348	37,817	35,748
Net earnings	31,641	33,118	84,124	84,150
Other comprehensive income (loss):				
Foreign currency translation adjustments	733	(9,264)	11,979	(4,232)
Unrealized gains (losses) on available-for-sale investments, net of tax of $42, $6,610, ($16,887) and ($2,659), respectively	5,311	11,851	(30,441)	(4,706)

Other comprehensive income (loss)	6,044	2,587	(18,462)	(8,938)
Comprehensive income	$ 37,685	$ 35,705	$ 65,662	$ 75,212
Earnings per share:				
Basic	$ 0.86	$ 0.90	$ 2.28	$ 2.28
Diluted	$ 0.85	$ 0.90	$ 2.27	$ 2.28
Cash dividends per common share:	$ 0.31	$ 0.30	$ 0.91	$ 0.88
Weighted average common shares outstanding:				
Basic	36,911	36,842	36,878	36,835
Diluted	37,053	36,908	36,995	36,901

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

TECHNE Corporation and Subsidiaries

(in thousands, except share and per share data)

	March 31, 2014 (unaudited)	*June 30, 2013*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 123,603	$ 163,786
Short-term available-for-sale investments	96,528	169,151
Trade accounts receivable, less allowance for doubtful accounts of $488 and $428, respectively	48,501	38,183
Other receivables	1,957	1,992
Deferred income taxes	8,509	0
Inventories	38,386	34,877
Prepaid expenses	2,047	1,527
Total current assets	319,531	409,516
Available-for-sale investments	151,357	132,376
Property and equipment, net	116,649	108,756
Goodwill	144,654	84,336
Intangible assets, net	96,110	40,552
Other assets	2,265	2,562
	$ 830,566	$ 778,098
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 8,418	$ 6,236
Salaries, wages and related accruals	6,462	4,025
Accrued expenses	3,806	9,603
Income taxes payable	5,678	2,276
Deferred income taxes	0	9,944
Total current liabilities	24,364	32,084
Deferred income taxes	29,161	8,473
Shareholders equity:		
Common stock, par value $.01 per share; authorized 100,000,000; issued and outstanding 36,925,781 and 36,834,678, respectively	369	368
Additional paid-in capital	142,658	134,895
Retained earnings	637,923	587,725

Accumulated other comprehensive income	(3,909)	14,553
Total shareholders equity	777,041	737,541
	$ 830,566	$ 778,098

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

TECHNE Corporation and Subsidiaries

(in thousands)

(unaudited)

	Nine Months Ended March 31,	
	2014	*2013*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 84,124	$ 84,150
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13,864	9,279
Costs recognized on sale of acquired inventory	4,312	3,496
Deferred income taxes	(4,098)	(2,054)
Stock-based compensation expense	2,635	1,374
Other	424	382
Change in operating assets and operating liabilities, net of acquisition:		
Trade accounts and other receivables	(6,862)	(2,319)
Inventories	(704)	(2,032)
Prepaid expenses	(38)	(240)
Trade accounts payable and accrued expenses	575	(215)
Salaries, wages and related accruals	1,463	636
Income taxes payable	3,146	1,118
Net cash provided by operating activities	98,841	93,575
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(103,149)	0
Purchase of available-for-sale investments	(89,283)	(89,099)
Proceeds from sales of available-for-sale investments	43,375	26,367
Proceeds from maturities of available-for-sale investments	46,754	53,987
Additions to property and equipment	(11,719)	(17,108)
Distributions from unconsolidated entities	85	0
Increase in other long-term assets	(60)	(592)
Net cash used in investing activities	(113,997)	(26,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends	(33,925)	(32,413)
Proceeds from stock option exercises	5,128	824
Excess tax benefit from stock option exercises	0	69
Purchase of common stock for stock bonus plans	0	(573)

Net cash used in financing activities	(28,797)	(32,093)
Effect of exchange rate changes on cash and cash equivalents	3,770	(999)
Net increase in cash and cash equivalents	(40,183)	34,038
Cash and cash equivalents at beginning of period	163,786	116,675
Cash and cash equivalents at end of period	$ 123,603	$ 150,713

See Notes to Condensed Consolidated Financial Statements.

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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 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. Intangible asset amortization from this acquisition is not deductible for income tax purposes.

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. Goodwill from this acquisition is not deductible for income tax purposes.

Transaction costs of \$0.5 million and \$0.6 million 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):

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Current assets	$ 9,605
Intangible Assets	60,500
Goodwill	56,349
Equipment	2,180
Total assets acquired	128,634
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 nine months ended March 31, 2014, include Bionostics net sales of $9.3 million and $23.5 million, respectively, and net income of $0.7 million and $1.0 million, respectively. Included in Bionostics results for the quarter and nine months ended March 31, 2014 were amortization of intangibles of $1.5 million and $4.0 million, respectively, and costs recognized on the sales of acquired inventory of $0.3 million and $1.4 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 March 31, 2014 and June 30, 2013 were $248 million and $302 million, respectively. The amortized cost basis of the Company s available-for-sale investments at March 31, 2014 and June 30, 2013 were $235 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, Inc. (CCXI). The fair value of the Company s investment was $42.1 million and $89.6 million at March 31, 2014 and June 30, 2013, respectively. The cost basis of the Company s investment in CCXI was $29.5 million at both March 31, 2014 and June 30, 2013.

D. Inventories:

Inventories consist of (in thousands):

	March 31, 2014	*June 30, 2013*
Raw materials	$ 9,081	$ 5,885
Finished goods	29,305	28,992
	$ 38,386	$ 34,877

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E. Property and Equipment:

Property and equipment consist of (in thousands):

	March 31, 2014	*June 30, 2013*
Cost:		
Land	$ 7,437	$ 7,438
Buildings and improvements	149,739	142,656
Machinery and equipment	51,743	39,706
	208,919	189,800
Accumulated depreciation and amortization	(92,270)	(81,044)
	$ 116,649	$ 108,756

F. Intangible Assets and Goodwill:

Intangible assets and goodwill consist of (in thousands):

	March 31, 2014	*June 30, 2013*
Developed technology	$ 45,279	$ 28,656
Trade names	20,985	17,659
Customer relationships	49,904	8,613
Non-compete agreement	2,800	400
	118,968	55,328
Accumulated amortization	(22,858)	(14,776)
	$ 96,110	$ 40,552
Goodwill	$ 144,654	$ 84,336

Changes to the carrying amount of net intangible assets for the nine months ended March 31, 2014 consists of (in thousands):

Beginning balance	$ 40,552
Acquisition	60,500
Amortization expense	(7,380)
Currency translation	2,438

Ending balance	$ 96,110

The estimated future amortization expense for intangible assets as of March 31, 2014 is as follows (in thousands):

Period Ending June 30:	
2014	$ 2,611
2015	10,442
2016	10,422
2017	9,612
2018	9,562
Thereafter	53,461
	$ 96,110

The change in the carrying amount of goodwill for the nine months ended March 31, 2014 resulted from the Bionostics acquisition and currency translation.

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G. Earnings Per Share:

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

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Weighted average common shares outstanding-basic	36,911	36,842	36,878	36,835
Dilutive effect of stock options	142	66	117	66
Weighted average common shares outstanding-diluted	37,053	36,908	36,995	36,901

The dilutive effect of stock options 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 55,000 and 115,000 for the quarter and nine months ended March 31, 2014, respectively. The number of potentially dilutive option shares excluded from the calculation was 222,000 for both the quarter and nine months ended March 31, 2013.

H. Segment Information:

The Company has two reportable segments based on the nature of products (biotechnology and clinical controls). Following is financial information relating to the Company s reportable segments (in thousands):

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
External sales				
Biotechnology	$ 80,134	$ 75,285	$ 223,881	$ 214,416
Clinical Controls	15,421	5,707	41,359	16,684
Consolidated net sales	$ 95,555	$ 80,992	$ 265,240	$ 231,100
Earnings before income taxes				
Biotechnology	$ 44,593	$ 43,246	$ 120,589	$ 117,123
Clinical Controls	3,157	2,247	7,225	6,498
Segment earnings before income taxes	47,750	45,493	127,814	123,621
Unallocated corporate expenses and equity method investee losses	(1,681)	(1,027)	(5,873)	(3,723)
Consolidated earnings before income taxes	$ 46,069	$ 44,466	$ 121,941	$ 119,898

I. Accumulated Other Comprehensive Income:

Accumulated other comprehensive income (loss) consists of (in thousands):

	March 31, 2014	*June 30, 2013*
Foreign currency translation adjustments	$ (12,302)	$ (24,281)
Net unrealized gain on available-for-sale investments, net of tax	8,393	38,834
	$ (3,909)	$ 14,553

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J. Subsequent Event:

On April 1, 2014, the Company entered into an Agreement of Investment and Merger (the Agreement) with CyVek, Inc. (CyVek). Pursuant to the terms of the Agreement, the Company invested $10.0 million in CyVek and received shares of Common Stock representing approximately 20% of the outstanding voting stock of CyVek.

If, within twelve months of the date of the Agreement, CyVek meets commercial milestones related to the sale of its products, the Company will acquire CyVek through a merger, with CyVek surviving as a wholly-owned subsidiary of the Company. If the Merger is consummated, the Company will make an initial payment of $60.0 million to the other stockholders of CyVek. The purchase price payable at the closing of the Merger may be adjusted based on the final levels of cash, indebtedness and transaction expenses of CyVek as of the closing. The Company will also pay CyVek s other stockholders up to $35.0 million based on the revenue generated by CyVek s products and related products before the date that is 30 months from the closing of the Merger. The Company will also pay CyVek s other stockholders 50% of the amount, if any, by which the revenue from CyVek s products and related products exceeds $100 million in calendar year 2020.

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

OVERVIEW

Techne Corporation and Subsidiaries (the Company), d/b/a Bio-Techne, is a global life sciences company providing innovative bioactive tools and resources for the research and clinical diagnostic communities. Bio-Techne products assist scientific investigations into biological processes and the nature and progress of specific diseases. They aid in drug discovery efforts and provide the means for accurate clinical tests and diagnoses.

The Company has two reportable segments based on the nature of its products (biotechnology and clinical controls). R&D Systems, Inc. s Biotechnology Division, R&D Systems Europe Ltd., Tocris Holdings Limited, R&D Systems China Co., Ltd., BiosPacific, Inc. and Boston Biochem, Inc. operating segments are included in the biotechnology reporting segment. The Company s biotechnology reporting segment develops, manufactures and sells biotechnology research and diagnostic products world-wide. The Company s clinical controls reporting segment, which consists of R&D Systems, Inc. s Clinical Controls Division and Bionostics, Inc., develop and manufacture controls and calibrators for sale world-wide.

RESULTS OF OPERATIONS

Consolidated net sales increased 18.0% and 14.8% for the quarter and nine months ended March 31, 2014, respectively, compared to the quarter and nine months ended March 31, 2013. Consolidated net earnings decreased 4.5% and were unchanged for the quarter and nine months ended March 31, 2014, respectively, compared to the same prior-year periods. Consolidated net sales for the quarter and nine months ended March 31, 2014 were affected by the Bionostics acquisition, which closed in July 2013, and changes in foreign currency exchange rates from the same prior-year periods. Included in consolidated net sales for the quarter and nine months ended March 31, 2014 were $9.3 million and $23.5 million of acquisition-related net sales. A weaker U.S. dollar as compared to foreign currencies increased sales by $1.0 million and $2.2 million in the quarter and nine months ended March 31, 2014, respectively, from the comparable prior-year periods.

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Net Sales

Consolidated organic net sales, excluding the impact of the acquisition and the effect of the change from the prior year in exchange rates used to convert sales in foreign currencies (primarily British pound sterling, euros and Chinese yuan) into U.S. dollars, were as follows (in thousands):

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Consolidated net sales	$ 95,555	$ 80,992	$ 265,240	$ 231,100
Organic sales adjustments:				
Acquisition	(9,311)	0	(23,507)	0
Impact of foreign currency fluctuations	(977)	0	(2,230)	0
Consolidated organic net sales	$ 85,267	$ 80,992	$ 239,503	$ 231,100
Organic sales growth (decline)	5.3%	(3.0%)	3.6%	(0.9%)

Net sales by reportable segment were as follows (in thousands):

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Biotechnology	$ 80,134	$ 75,285	$ 223,881	$ 214,416
Clinical Controls	15,421	5,707	41,359	16,684
Consolidated net sales	$ 95,555	$ 80,992	$ 265,240	$ 231,100

Biotechnology segment net sales increased $4.8 million (6.4%) and $9.5 million (4.4%) for the quarter and nine months ended March 31, 2014 compared to the same prior-year periods. The increase in net sales for the quarter and nine months ended March 31, 2014 was affected by changes in exchange rates from the comparable prior-year periods, which increased sales by $1.0 million and $2.2 million for the quarter and nine months ended March 31, 2014, as noted above. Included in consolidated net sales for the quarter and nine months ended March 31, 2014 were $0.9 million and $1.8 million, respectively, of sales of new biotechnology products that had their first sale in fiscal 2014.

Biotechnology segment sales growth (decline) from the same prior-year periods were as follows:

	Reported Quarter Ended March 31,		*Excluding Currency Impact Quarter Ended March 31,*	
	2014	*2013*	*2014*	*2013*
U.S. industrial, pharmaceutical and biotechnology	4.2%	(2.5%)	4.2%	(2.5%)

U.S. academic	(11.7%)	(8.5%)	(11.7%)	(8.5%)
Europe	12.9%	(10.8%)	7.7%	(10.3%)
China	4.8%	25.3%	2.0%	24.9%
Pacific rim distributors, excluding China	12.0%	9.6%	12.0%	9.6%

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	Reported		*Excluding Currency Impact*	
	Nine Months Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
U.S. industrial, pharmaceutical and biotechnology	4.4%	(4.2%)	4.4%	(4.2%)
U.S. academic	(9.6%)	(5.5%)	(9.6%)	(5.5%)
Europe	6.7%	(6.1%)	2.4%	(2.0%)
China	26.6%	20.2%	23.3%	19.4%
Pacific rim distributors, excluding China	11.1%	4.7%	11.1%	4.7%

Biotechnology segment net sales consisted of the following:

	Nine Months Ended March 31, 2014
United States:	
Industrial, pharmaceutical and biotechnology	29%
Academic	12%
Other	12%
	53%
Europe	29%
China	6%
Pacific rim distributors, excluding China	10%
Rest of world	2%
	100%

Clinical Controls segment net sales increased $9.7 million and $24.7 million for the quarter and nine months ended March 31, 2014, respectively, compared to the same prior-year periods. The increase in net sales for the quarter and nine months ended March 31, 2014 was affected by the acquisition of Bionostics in July 2013. Excluding Bionostic sales, Clinical Controls segment sales growth was $0.4 million (7.1%) and $1.2 million (7.0%) for the quarter and nine months ended March 31, 2014, respectively. These increases were a result of strong demand for its products and solid execution by the team.

Gross Margins

Fluctuations in gross margins, as a percentage of net sales, are typically the result of changes in foreign currency exchange rates, changes in product mix and seasonality. Such fluctuations are normal and expected to continue in future periods.

Consolidated gross margins for the quarters and nine months ended March 31, 2014 and 2013 were negatively impacted as a result of purchase accounting related to inventory and intangible assets acquired in the current and prior fiscal years. Under purchase accounting, inventory is valued at fair value less expected selling and marketing costs, resulting in reduced margins in future periods as the inventory is sold.

A reconciliation of the reported consolidated gross margin percentages, adjusted for acquired inventory sold and intangible amortization included in cost of sales, is as follows:

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Consolidated gross margin percentage	71.3%	75.5%	70.8%	74.4%
Identified adjustments				
Costs recognized upon sale of acquired inventory	1.2%	1.3%	1.6%	1.5%
Amortization of intangibles	1.1%	0.9%	1.2%	1.0%
Adjusted gross margin percentage	73.6%	77.7%	73.6%	76.9%

Segment gross margins, as a percentage of net sales, were as follows:

	Quarter Ended March 31		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Biotechnology	77.3%	77.5%	76.9%	76.4%
Clinical Controls	39.8%	49.0%	38.1%	49.0%
Consolidated	71.3%	75.5%	70.8%	74.4%

Biotechnology segment gross margin percentages for the quarter and nine months ended March 31, 2014 remained stable from the same prior-year periods. Clinical Controls segment gross margin percentages for the quarter and nine months ended March 31, 2014 decreased from the comparable prior-year period mainly as a result of intangible amortization and cost recognized upon the sale of inventory acquired in July 2013, in conjunction with the acquisition of Bionostics.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $4.7 million (46.9%) and $12.3 million (39.5%) for the quarter and nine months ended March 31, 2014, respectively, from the same prior-year periods. The increase for the quarter and nine months ended March 31, 2014 was mainly a result of the Bionostics acquisition, including $1.0 million and $3.1 million, respectively, of selling, general and administrative expense by Bionostics, and $1.1 million and $2.9 million of intangible amortization for the quarter and nine months ended March 31, 2014, respectively. Selling, general and administrative expenses included $0.4 million and $0.9 million of professional fees related to acquisition activities for the quarter and nine months ended March 31, 2014, respectively. These expenses also included an increase in stock compensation expense of $0.5 million and $1.3 million for the quarter and nine months ended March 31, 2014, respectively, as a result of increased options and restricted stock granted in fiscal 2014. The remainder of the increase in selling, general and administrative expense was due primarily to additional investment in commercial resources and administrative infrastructure since the third quarter of fiscal 2013.

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

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Biotechnology	$ 10,655	$ 8,941	$ 31,011	$ 27,304
Clinical Controls	2,533	375	7,316	1,173
Unallocated corporate expenses	1,478	666	5,286	2,789
Consolidated selling, general and administrative expenses	$ 14,666	$ 9,982	$ 43,613	$ 31,266

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Research and Development Expenses

Research and development expenses for the quarter and nine months ended March 31, 2014 increased $0.5 million (6.3%) and $1.2 million (5.6%), respectively, from the same prior-year periods. Included in research and development expenses for the quarter and nine months ended March 31, 2014 were $0.2 million and $0.6 million, respectively, of expenses by Bionostics. The remainder of the increase in research and development expense for the quarter and nine months was due to personnel and supply costs associated with the continuous development and release of new high-quality biotechnology products. The Company expects research and development expenses to continue to increase in future periods as a result of its ongoing product development program.

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

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Biotechnology	$ 7,212	$ 7,015	$ 22,011	$ 21,470
Clinical Controls	464	204	1,290	604
Consolidated research and development expenses	$ 7,676	$ 7,219	$ 23,301	$ 22,074

Interest Income

Interest income for the quarter and nine months ended March 31, 2014 was $0.5 million and $1.6 million, respectively, compared to $0.6 million and $2.0 million, respectively, for the quarter and nine months ended March 31, 2013. The decrease was primarily due to lower cash balances as a result of the Bionostics acquisition in July 2013.

Other Non-operating Expense, Net

Other non-operating expense, net, 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. Amounts were as follows (in thousands):

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Foreign currency gains	$ 8	$ 289	$ 93	$ 360
Rental income	248	196	737	581
Building expenses related to rental property	(485)	(572)	(1,434)	(1,558)
Losses by equity method investees	0	(31)	0	(114)
Other non-operating expense, net	$ (229)	$ (118)	$ (604)	$ (731)

Income Taxes

Income taxes for the quarter and nine months ended March 31, 2014 were provided at rates of 31.3% and 31.0%, respectively, of consolidated earnings before income taxes compared to 25.5% and 29.8%, respectively for the quarter and nine months ended March 31, 2013. Included in income tax expense for the quarter and nine months ended March 31, 2013 was a $1.2 million credit for research and development expenses for the period of January 2012 through March 2013. Also included in income tax expense for the quarter and nine months ended March 31, 2013 were credits to U.S. income taxes of $1.1 million and $0.5 million, respectively, related to changes in estimates of foreign source income.

The Company expects the income tax rate for the remainder of fiscal 2014 to range from 30% to 32%.

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Net Earnings

Adjusted consolidated net earnings are as follows:

	Quarter Ended March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*
Net earnings	$ 31,641	$ 33,118	$ 84,124	$ 84,150
Identified adjustments:				
Costs recognized upon sale of acquired inventory	1,177	1,032	4,312	3,496
Amortization of intangibles	2,605	1,252	7,380	3,806
Acquisition related professional fees	395	0	927	0
Tax impact of above adjustments	(1,169)	(619)	(3,552)	(1,965)
Tax impact of research and development credit	0	(1,186)	(476)	(1,186)
Tax impact of foreign source income	36	(1,138)	136	(500)
Net earnings adjusted	$ 34,685	$ 32,459	$ 92,851	$ 87,801
Adjusted net earnings growth	6.9%		5.8%	

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2014, cash and cash equivalents and available-for-sale investments were $371 million compared to $465 million at June 30, 2013. Included in available-for-sale-investments at March 31, 2014 was the fair value of the Company s investment in ChemoCentryx, Inc. (CCXI) of $42.1 million. The fair value of the Company s CCXI investment at June 30, 2013 was $89.6 million.

At March 31, 2014, approximately 47%, 47%, and 6% of the Company s cash and cash equivalents of $124 million are located in the U.S., United Kingdom and China, respectively. At March 31, 2014, approximately 95% of the Company s available-for-sale investment accounts are located in the U.S., with the remaining 5% in China. The Company has either paid U.S. income taxes on its undistributed foreign earnings or intends to indefinitely reinvest the undistributed earnings in the foreign operations.

The Company believes it can meet its cash and working capital requirements, capital addition, share repurchase, cash dividend and investment strategy needs for at least the next twelve months through currently available funds, cash generated from operations and maturities or sales of available-for-sale investments. Future acquisition strategies may, or may not, require outside sources of funding.

Cash Flows From Operating Activities

The Company generated cash of $98.8 million from operating activities in the first nine months of fiscal 2014 compared to $93.6 million in the first nine months of fiscal 2013. The increase from the prior year was primarily due to increased net earnings after adjustment for non-cash expenses related to depreciation, amortization and cost recognized on sale of acquired inventory.

Cash Flows From Investing Activities

On July 22, 2013, the Company acquired, for a net purchase price of $103 million 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. The acquisition was financed through cash and cash equivalents on hand.

During the nine months ended March 31, 2014, the Company purchased $89.3 million and had sales or maturities of $90.1 million of available-for-sale investments. During the nine months ended March 31, 2013, the Company purchased $89.1 million and had sales or maturities of $80.4 million of available-for-sale investments. The Company s investment policy is to place excess cash in municipal and corporate 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.

Capital expenditures for fixed assets for the first nine months of fiscal 2014 and 2013 were $11.7 million and $17.1 million, respectively. Included in capital expenditures for the first nine months of fiscal 2014 and 2013 was $5.8 million and $15.1 million, respectively, related to expansion and remodeling of office and laboratory space at the Company s Minneapolis, Minnesota facility. The remaining capital additions were mainly for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2014 are expected to be approximately $2.8 million. Capital expenditures are expected to be financed through currently available funds and cash generated from operating activities.

Subsequent to the end of the third quarter of fiscal 2014, the Company invested $10.0 million in CyVek, Inc. (CyVek) representing approximately 20% of the outstanding voting stock of CyVek.

Cash Flows From Financing Activities

During the first nine months of fiscal 2014 and 2013, the Company paid cash dividends of $33.9 million and $32.4 million, respectively, to all common shareholders. On April 28, 2014, the Company announced the payment of a $0.31 per share cash dividend. The dividend of approximately $11.5 million will be payable May 23, 2014 to all common shareholders of record on May 9, 2014.

Cash of $5.1 million and $0.8 million was received during the first nine months of fiscal 2014 and 2013, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of $0.1 million for the nine months ended March 31, 2013.

During the first nine months of fiscal 2013, the Company repurchased 8,324 shares of common stock for its employee stock bonus plans at a cost of $0.6 million. No contribution to the employee stock bonus plan was made during the first nine months of fiscal 2014.

CONTRACTUAL OBLIGATIONS

There were no material changes outside the ordinary course of business in the Company s contractual obligations during the quarter ended March 31, 2014.

CRITICAL ACCOUNTING POLICIES

The Company s significant accounting policies are discussed in the Company s Annual Report on Form 10-K for fiscal 2013 and are incorporated herein by reference. 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, valuation of intangible assets and goodwill and valuation of investments in unconsolidated entities. There have been no significant changes in estimates in fiscal 2014 that would require disclosure. There have been no changes to the Company s policies in fiscal 2014.

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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 effect of changes to accounting policies, the amount of capital expenditures for the remainder of the fiscal year, the source of funding for capital expenditure requirements, the sufficiency of currently available funds for meeting the Company s needs, the impact of fluctuations in foreign currency exchange rates, and expectations regarding gross margin fluctuations, increasing research and development expenses, increasing selling, general and administrative expenses and income tax rates. 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 products, general national and international economic conditions, increased competition, the reliance on internal manufacturing and related operations, the impact of currency exchange rate fluctuations, economic instability in Eurozone countries, the recruitment and retention of qualified personnel, the impact of governmental regulation, maintenance of intellectual property rights, credit risk and fluctuation in the market value of the Company s investment portfolio, unseen delays and expenses related to facility improvements, 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 for fiscal 2013 as filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2014, the Company had a portfolio of fixed income debt securities, excluding those classified as cash and cash equivalents, of $206 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. As 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.

At March 31, 2014, the Company held an investment in the common stock of CCXI. The investment was included in short-term available-for-sale investments at its fair value of $42.1 million. At March 31, 2014, the potential loss in fair value due to a 10% decrease in the market value of CCXI was $4.2 million.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency exchange rates. For the nine months ended March 31, 2014, approximately 30% of consolidated net sales were made in foreign currencies, including 15% in euros, 5% in British pound sterling, 4% in Chinese yuan and the remaining 6% in other European currencies. As a result, the Company is exposed to market risk mainly from foreign exchange rate fluctuations of the euro, British pound sterling and the Chinese yuan as compared to the U.S. dollar as the financial position and operating results of the Company s foreign operations are translated into U.S. dollars for consolidation.

Month-end average exchange rates between the British pound sterling, euro and 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 March 31,		*Nine Months Ended March 31,*	
	2014	*2013*	*2014*	*2013*

Euro	$ 1.37	$ 1.32	$ 1.36	$ 1.29
British pound sterling	1.66	1.54	1.62	1.58
Chinese yuan	.163	.161	.164	.160

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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 March 31, 2014, 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	£	1,403	$	2,338
Other European currencies	£	1,173	$	1,955
Intercompany payable in:				
Euros	£	509	$	848
U.S. dollars	£	5,617	$	9,361
U.S. dollars	yuan	8,273	$	1,344

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 and Comprehensive Income. 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 March 31, 2014 levels against the euro, British pound sterling and Chinese yuan are as follows (in thousands):

Decrease in translation of 2014 earnings into U.S. dollars (annualized)	$ 2,585
Decrease in translation of net assets of foreign subsidiaries	16,967
Additional transaction losses	1,071

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company s management 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 were not effective as a result of the previously identified material weakness in internal control over financial reporting, the nature of which is summarized below.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The Company has identified a material weakness in the design, implementation and operating effectiveness of general IT controls (GITCs) intended to ensure that access to financial applications and data was adequately restricted to appropriate personnel, and that program changes to particular financial applications are documented, tested, and moved into the production environment only by individuals separate from the development function. As a result, certain classes of transactions subject to controls that rely upon information generated by the Company s IT systems that are subject to the operation of the GITCs, including the completeness, existence, and accuracy of revenue and accounts receivable, allow for a reasonable possibility that a misstatement is not adequately prevented or detected through the operation of management s system of internal control over financial reporting.

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Remediation Efforts in Fiscal 2014

Promptly following the identification of the material weakness as described above, management, with the oversight of the Audit Committee of the Board of Directors, began taking steps to remediate the material weakness.

During the nine months ended March 31, 2014, the Company enhanced its internal testing approach, including performing additional procedures and expanding the documentation for select controls, to ensure the completeness, existence and accuracy of system generated information used to support the operation of the controls. The Company anticipates that the enhanced testing and documentation, in addition to possible expansion of human resources to improve segregation of duties, will be adequate to remediate the material weakness in future quarters, and that testing to confirm elimination of the material weakness will be complete by the end of the 2014 fiscal year.

In light of the material weakness identified above, the Company performed additional analysis and other post-closing procedures to ensure that the Company s consolidated financial statements were prepared in accordance with generally accepted accounting principles and accurately reflect its financial position and results of operation as of and for the quarter and nine months ended March 31, 2014. As a result, notwithstanding the material weakness as described above, management concluded that the consolidated financial statements included in this Form 10-Q present fairly, in all material respects, the Company s financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Changes in Internal Control over Financial Reporting

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, except for the remediation steps to address the material weakness in internal control over financial reporting described above.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of May 12, 2014, the Company is not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company s business, results of operations, financial condition or cash flows.

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, 2013.

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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, 2014:

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
1/1/14-1/31/14	0	$ 0	0	$ 125.2 million
2/1/14-2/28/14	0	$ 0	0	$ 125.2 million
3/1/14-3/31/14	0	$ 0	0	$ 125.2 million
Total	0	$ 0	0	$ 125.2 million

In April 2009, the Company authorized a plan for the repurchase and retirement of $60.0 million of its common stock. The plan does not have an expiration date. In October 2012, the Company increased the amount authorized under the plan by $100 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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: May 12, 2014	/s/ Charles R. Kummeth Charles R. Kummeth Principal Executive Officer
Date: May 12, 2014	/s/ James Hippel James Hippel Principal 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
101	The following financial statements from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements.