

TECHNE CORP /MN/
Form 10-Q
May 10, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2011, 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 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
(Do not check if a 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 May 3, 2011, 37,126,893 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
TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	<i>3/31/11</i>	<i>6/30/10</i>
ASSETS		
Cash and cash equivalents	\$ 158,628	\$ 94,139
Short-term available-for-sale investments	55,270	44,672
Trade accounts receivable, net	35,554	30,850
Income tax receivable	0	1,755
Other receivables	1,960	1,532
Inventories	13,619	13,737
Deferred income taxes	10,837	13,379
Prepaid expenses	858	976
 Total current assets	 276,726	 201,040
 Available-for-sale investments	 163,793	 171,171
Property and equipment, net	94,145	97,400
Goodwill	25,068	25,068
Intangible assets, net	1,533	2,044
Deferred income taxes	539	1,011
Investments in unconsolidated entities	19,815	20,559
Other assets	1,200	523
	\$ 582,819	\$ 518,816
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 5,034	\$ 5,232
Salaries, wages and related accruals	4,907	3,781
Other accounts payable and accrued expenses	2,505	4,375
Income taxes payable	4,096	3,636
 Total current liabilities	 16,542	 17,024
 Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 37,119,243 and 37,033,474, respectively	 371	 370
Additional paid-in capital	127,321	122,537
Retained earnings	454,428	400,119
Accumulated other comprehensive loss	(15,843)	(21,234)
 Total stockholders' equity	 566,277	 501,792

\$ 582,819

\$ 518,816

See Notes to Condensed Consolidated Financial Statements.

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TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Net sales	\$ 76,271	\$ 70,278	\$ 211,924	\$ 202,333
Cost of sales	15,833	14,399	46,292	40,629
Gross margin	60,438	55,879	165,632	161,704
Operating expenses:				
Selling, general and administrative	9,233	7,666	25,150	24,711
Research and development	6,297	6,325	19,519	18,870
Amortization of intangible assets	170	240	511	720
Total operating expenses	15,700	14,231	45,180	44,301
Operating income	44,738	41,648	120,452	117,403
Other income (expense):				
Interest income	1,067	1,040	2,934	3,364
Other non-operating expense, net	(421)	(1,249)	(1,376)	(2,922)
Total other income (expense)	646	(209)	1,558	442
Earnings before income taxes	45,384	41,439	122,010	117,845
Income taxes	14,320	9,051	38,039	33,964
Net earnings	\$ 31,064	\$ 32,388	\$ 83,971	\$ 83,881
Earnings per share:				
Basic	\$ 0.84	\$ 0.87	\$ 2.26	\$ 2.25
Diluted	\$ 0.84	\$ 0.87	\$ 2.26	\$ 2.25
Cash dividends per common share	\$ 0.27	\$ 0.26	\$ 0.80	\$ 0.77
Weighted average common shares outstanding:				
Basic	37,119	37,292	37,084	37,263
Diluted	37,194	37,380	37,153	37,357

See Notes to Condensed Consolidated Financial Statements.

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TECHNE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 83,971	\$ 83,881
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,942	6,067
Deferred income taxes	3,194	(2,442)
Stock-based compensation expense	937	960
Excess tax benefit from stock option exercises	(419)	(177)
Losses by equity method investees	744	1,201
Other	230	106
Change in operating assets and operating liabilities:		
Trade accounts and other receivables	(5,860)	(5,966)
Inventories	(17)	(2,676)
Prepaid expenses	137	(347)
Trade accounts and other accounts payable and accrued expenses	347	(325)
Salaries, wages and related accruals	1,386	673
Income taxes payable/receivable	1,930	(1,475)
Net cash provided by operating activities	92,522	79,480
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(2,357)	(3,521)
Purchase of available-for-sale investments	(131,524)	(124,130)
Proceeds from sales of available-for-sale investments	97,638	7,592
Proceeds from maturities of available-for-sale investments	31,846	26,425
Increase in other assets	(807)	0
Distribution from unconsolidated entity	0	50
Net cash used in investing activities	(5,204)	(93,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock option exercises	3,429	3,039
Excess tax benefit from stock option exercises	419	177
Purchase of common stock for stock bonus plans	(294)	(607)
Repurchase of common stock	(1,940)	(1,398)
Dividends paid	(29,662)	(28,695)
Net cash used in financing activities	(28,048)	(27,484)
Effect of exchange rate changes on cash and cash equivalents	5,219	(11,116)

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Net increase in cash and cash equivalents	64,489	(52,704)
Cash and cash equivalents at beginning of period	94,139	160,940
Cash and cash equivalents at end of period	\$ 158,628	\$ 108,236

See Notes to Condensed Consolidated Financial Statements.

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

A. General:

Basis of presentation:

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

A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 2010. 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, 2010, included in the Company's Annual Report on Form 10-K for fiscal 2010.

Fair value measurements:

The Company's available-for-sale securities of \$219 million at March 31, 2011 are carried at fair value and are valued using quoted market prices in active markets (Level 1 input) for identical assets and liabilities.

Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 167, now codified as Accounting Standards Codification (ASC) Topic 810, *Consolidation*. This statement amends the consolidation guidance applicable to variable interest entities and was effective for the Company beginning July 1, 2010. The adoption of the ASC did not have a material impact on the Company's consolidated financial statements.

Table of Contents**B. Balance Sheet Detail:**

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

	<i>3/31/11</i>	<i>6/30/10</i>
Trade Accounts Receivable		
Trade accounts receivable	\$ 36,013	\$ 31,197
Allowance for doubtful accounts	(459)	(347)
Net Trade Accounts Receivable	\$ 35,554	\$ 30,850
Inventories		
Raw materials	\$ 5,277	\$ 5,433
Finished goods	8,342	8,304
Total Inventories	\$ 13,619	\$ 13,737
Property and Equipment		
Land	\$ 7,497	\$ 7,419
Buildings and improvements	119,025	118,412
Laboratory equipment	27,415	26,482
Office equipment	5,167	4,672
	159,104	156,985
Accumulated depreciation and amortization	(64,959)	(59,585)
Net Property and Equipment	\$ 94,145	\$ 97,400
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	(5,312)	(4,801)
Net Intangible Assets	\$ 1,533	\$ 2,044

C. Income Taxes:

Income taxes for the quarter and nine months ended March 31, 2011 were provided at rates of 31.6% and 31.2% of consolidated earnings before income taxes, as compared to 21.8% and 28.8% for the same prior-year periods. During the quarter ended March 31, 2010, the Company's R&D Europe subsidiary declared and paid a dividend of £50 million (\$74.4 million) to the Company. The £50 million R&D Europe earnings had previously been taxed in the U.S. and therefore, no additional U.S. income tax resulted for the repatriation. The Company realized a foreign exchange loss for tax purposes on the transaction of approximately \$12.8 million and as a result, reported a \$4.7 million reduction in income tax expense in the quarter ended March 31, 2010. Excluding the \$4.7 million, the effective tax rates for the quarter and nine months ended March 31, 2010 would have been 33.1% and 32.8%, respectively. The improvement in

the tax rate for the quarter and nine months ended March 31, 2011 was the result of the renewal of the U.S. research and development credit and an increase in the deduction for qualified production activities. 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.

Table of Contents**D. Earnings Per Share:**

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

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Weighted average common shares outstanding-basic	37,119	37,292	37,084	37,263
Dilutive effect of stock options	75	88	69	94
Weighted average common shares outstanding-diluted	37,194	37,380	37,153	37,357

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 69,000 and 70,000 for the quarter and nine months ended March 31, 2011, respectively, and 2,000 for both the quarter and nine months ended March 31, 2010.

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):

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
External sales				
Biotechnology	\$ 49,939	\$ 46,179	\$ 141,024	\$ 132,628
R&D Europe	21,181	19,161	56,217	55,774
Hematology	5,151	4,938	14,683	13,931
Net sales	\$ 76,271	\$ 70,278	\$ 211,924	\$ 202,333
Earnings before income taxes				
Biotechnology	\$ 35,932	\$ 33,070	\$ 98,302	\$ 93,983
R&D Europe	8,979	7,859	23,022	23,719
Hematology	1,947	1,954	5,296	5,345
Segment earnings before income taxes	46,858	42,883	126,620	123,047
Unallocated corporate expenses and equity method investee losses	(1,474)	(1,444)	(4,610)	(5,202)
Earnings before income taxes	\$ 45,384	\$ 41,439	\$ 122,010	\$ 117,845

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Option activity under the Company's stock option plans during the nine months ended March 31, 2011 was as follows:

	<i>Shares (in thousands)</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Average Contractual Life (Yrs.)</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at June 30, 2010	440	\$ 54.26		
Granted	45	\$ 61.12		
Exercised	(95)	\$ 42.06		
Outstanding at March 31, 2011	390	\$ 58.03	5.9	\$5.3 million
Exercisable at March 31, 2011	317	\$ 56.22	5.8	\$4.9 million

No options were granted during the quarters ended March 31, 2011 and 2010. 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:

	<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>
Dividend yield	1.8%	1.6%
Expected annualized volatility	22%-27%	24%-30%
Risk free interest rate	1.3%-2.0%	2.5%-3.1%
Expected life	7 years	7 years
Weighted average fair value of options granted	\$ 15.02	\$ 19.53

The dividend yield is based on the Company's historical annual cash dividend divided by the market value of the Company's Common Stock. 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 rates 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.

Stock option exercises were satisfied through the issuance of new shares. The value of stock options exercised and vested was as follows (in thousands):

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Options exercised intrinsic value	\$ 0	\$ 991	\$ 1,822	\$ 1,456
Options vested fair value	0	0	677	717

Stock-based compensation cost of \$87,000 and \$937,000 was included in selling, general and administrative expense for the quarter and nine months ended March 31, 2011, respectively. Stock-based compensation cost of \$81,000 and \$960,000 was included in selling, general and administrative expense for the quarter and nine months ended March 31, 2010, respectively. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of March 31, 2011, there were 73,000 non-vested options outstanding with a weighted average grant date fair value of \$12.15. As of March 31, 2011, there was \$577,000 of total unrecognized compensation cost related to non-vested stock options that will be expensed in fiscal 2011 through 2014.

Table of Contents**G. Comprehensive Income and Accumulated Other Comprehensive Loss:**

Comprehensive income was as follows (in thousands):

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Net earnings	\$ 31,064	\$ 32,388	\$ 83,971	\$ 83,881
Foreign currency translation adjustments	3,271	(10,247)	5,792	(12,429)
Unrealized gain (loss) on available-for-sale investments, net of tax	(64)	(57)	(401)	127
Comprehensive income	\$ 34,271	\$ 22,084	\$ 89,362	\$ 71,579

Accumulated other comprehensive loss consists of (in thousands):

	<i>3/31/11</i>	<i>6/30/10</i>
Foreign currency translation adjustments	\$ (16,175)	\$ (21,967)
Unrealized gains on available-for-sale investments, net of tax	332	733
Accumulated other comprehensive loss	\$ (15,843)	\$ (21,234)

H. Subsequent Events:

On April 1, 2011, the Company, through its R&D Systems and R&D Europe subsidiaries, acquired the assets of Boston Biochem, Inc., a Massachusetts based company, and Boston Biochem Limited, a U.K. based company. Boston Biochem, Inc. is a leading developer and manufacturer of innovative ubiquitin-related research products and Boston Biochem Limited was its European distributor. The two companies had combined product sales of approximately \$2.5 million in calendar 2010. The combined Boston Biochem assets were acquired for approximately \$8.0 million cash.

On April 28, 2011, the Company, through its R&D Systems and R&D Europe subsidiaries, acquired 100% ownership of Tocris Holdings Limited (Tocris). Tocris is a U.K based holding company with a development and manufacturing subsidiary located in Bristol, U.K. and a distribution subsidiary located in Missouri. Tocris is a leading supplier of reagents for non-clinical life science research. Tocris had calendar 2010 revenues of approximately £11.7 million (\$18.0 million). Tocris was acquired for £75 million (approximately \$124 million) in cash.

**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).

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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 Nine Months Ended March 31, 2011 and 2010:

Consolidated net sales increased 8.5% and consolidated net earnings decreased 4.1%, respectively, for the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010. Consolidated net earnings for the quarter ended March 31, 2010 included a \$4.7 million tax benefit from a foreign exchange tax loss on the repatriation of £50 million from R&D Systems Europe to its U.S. based parent. Consolidated net sales and consolidated net earnings increased 4.7% and 0.1%, respectively, for the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010. Consolidated net sales and net earnings for the nine months ended March 31, 2011 were negatively affected by changes in exchange rates from the prior year. The unfavorable impact of the change from the prior year in exchange rates used to convert sales and net earnings in foreign currencies (primarily British pounds sterling and euros) into U.S. dollars was \$1.9 million and \$529,000, respectively, for the nine months ended March 31, 2011.

Net Sales:

Consolidated net sales for the quarter and nine months ended March 31, 2011 were \$76.3 million and \$211.9 million, respectively, increases of \$6.0 million (8.5%) and \$9.6 million (4.7%) from the quarter and nine months ended March 31, 2010. Excluding the effect of changes in foreign currency exchange rates, consolidated net sales increased 7.8% and 5.7% for the quarter and nine months ended March 31, 2011, respectively, from the comparable prior-year periods. Included in consolidated net sales for the quarter and nine months ended March 31, 2011 was \$757,000 and \$1.4 million of sales of new biotechnology products which had their first sale in fiscal 2011.

Biotechnology net sales increased \$3.8 million (8.1%) and \$8.4 million (6.3%) for the quarter and nine months ended March 31, 2011 compared to the same prior-year periods. The increase in the quarter and nine month period was mainly the result of increased sales volume. North American biotechnology sales to industrial pharmaceutical and biotechnology customers increased 9.9% and 5.7% during the quarter and nine months ended March 31, 2011, respectively, while biotechnology sales to academic customers increased 6.4% and 7.7% during the quarter and nine months ended March 31, 2011, respectively. Sales in China grew 46.0% and 25.3%, respectively, during the third quarter and first nine months of fiscal 2011, while sales to Pacific Rim distributors increased 3.3% and 2.4% during the third quarter and first nine months of fiscal 2011.

R&D Europe net sales increased \$2.0 million (10.5%) and \$443,000 (0.8%) for the quarter and nine months ended March 31, 2011, respectively, from the comparable prior-year periods. R&D Europe net sales increased 8.4% and 4.4% for the quarter and nine months ended March 31, 2011 when measured at currency rates in effect in the comparable prior-year period. Approximately 75% of R&D Europe sales are in non-British pound sterling currencies (mainly euros). The change in exchange rates used to convert sales in such other currencies to British pounds sterling had an unfavorable impact on consolidated net sales of approximately \$118,000 and \$934,000 for the quarter and nine months ended March 31, 2011, respectively. Consolidated net sales were also impacted favorably by \$529,000 for the quarter ended March 31, 2011, and impacted unfavorably by \$1.0 million for the nine months ended March 31, 2011, as a result of the change in exchange rates used to convert British pound sterling to U.S. dollars.

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Hematology sales increased \$213,000 (4.3%) and \$752,000 (5.4%) for the quarter and nine months ended March 31, 2011 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:

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Biotechnology	80.0%	79.4%	78.8%	80.1%
R&D Europe	51.0%	52.7%	50.0%	53.3%
Hematology	48.7%	49.3%	46.5%	48.9%
Consolidated	79.2%	79.5%	78.2%	79.9%

Consolidated gross margins, as a percentage of consolidated net sales, were 79.2% and 78.2% for the quarter and nine months ended March 31, 2011, respectively, compared to 79.5% and 79.9% for the quarter and nine months ended March 31, 2010, respectively. R&D Europe gross margin percentages for the quarter and nine months ended March 31, 2011 were 51.0% and 50.0%, respectively, compared to 52.7% and 53.3% for the same prior-year periods, mainly as a result of the effect of exchange rate changes. Biotechnology gross margin percentages were 80.0% and 78.8% for the quarter and nine months ended March 31, 2011 compared to 79.4% and 80.1% for the quarter and nine months ended March 31, 2010. The decrease in the Biotechnology gross margin percentage for the nine months ended March 31, 2011, was mainly the result of changes in product mix. Hematology gross margin percentages for the quarter and nine months ended March 31, 2011 were 48.7% and 46.5% compared to 49.3% and 48.9% for the quarter and nine months ended March 31, 2010 as a result of changes in product mix.

Selling, General and Administrative Expenses:

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

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Biotechnology	\$ 5,691	\$ 4,625	\$ 15,054	\$ 14,415
R&D Europe	2,173	1,967	6,032	6,078
Hematology	438	346	1,102	1,082
Unallocated corporate expenses	931	728	2,962	3,136
Selling, general and administrative expenses	\$ 9,233	\$ 7,666	\$ 25,150	\$ 24,711

Selling, general and administrative expenses for the quarter and nine months ended March 31, 2011 increased \$1.6 million (20.4%) and \$439,000 (1.8%), respectively, from the same prior-year periods. The increase in selling, general and administrative expense for the quarter ended March 31, 2011 resulted primarily from increased profit sharing expense of \$704,000, increased legal expenses due to acquisitions of \$211,000 and higher printing costs due to the timing of the printing of the annual Biotechnology catalog of \$350,000. The increase in selling, general and administrative expense for the nine months ended March 31, 2011 resulted from increased profit sharing expense of \$418,000.

Table of Contents**Research and Development Expenses:**

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

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Biotechnology	\$ 6,104	\$ 6,127	\$ 18,904	\$ 18,273
R&D Europe	0	0	0	0
Hematology	193	198	615	597
Research and development expenses	\$ 6,297	\$ 6,325	\$ 19,519	\$ 18,870

Research and development expenses for the quarter ended March 31, 2011 decreased \$28,000 and increased \$649,000 (3.4%) for the nine months ended March 31, 2011 from the same prior year periods. The increase in research and development expenses for the nine months ended March 31, 2011 was mainly due to increases in personnel and supply costs associated with the continuous development and release of new high-quality biotechnology products.

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.

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
Foreign currency gains (losses)	\$ 249	\$ (372)	\$ 667	\$ (329)
Rental income	114	83	375	279
Building expenses related to rental property	(587)	(593)	(1,674)	(1,671)
Losses by equity method investees	(197)	(367)	(744)	(1,201)
Other non-operating expense, net	\$ (421)	\$ (1,249)	\$ (1,376)	\$ (2,922)

Income Taxes:

Income taxes for the quarter and nine months ended March 31, 2011 were provided at rates of 31.6% and 31.2% of consolidated earnings before income taxes, as compared to 21.8% and 28.8% for the same prior-year periods. During the quarter ended March 31, 2010, the Company's R&D Europe subsidiary declared and paid a dividend of £50 million (\$74.4 million) to the Company. The £50 million R&D Europe earnings had previously been taxed in the U.S. and therefore, no additional U.S. income tax resulted for the repatriation. The Company realized a foreign exchange loss for tax purposes on the transaction of approximately \$12.8 million and as a result, reported a \$4.7 million reduction in income tax expense in the quarter ended March 31, 2010. Excluding the \$4.7 million tax benefit, the effective tax rates for the quarter and nine months ended March 31, 2010 would have been 33.1% and 32.8%. The improvement in the tax rate for the quarter and nine months ended March 31, 2011 was a result of the renewal of the U.S. research and development credit and an increase in the deduction for qualified production activities. 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 2011 effective income tax rate to range from approximately 31.0% to 32.0%.

Table of Contents**Liquidity and Capital Resources:**

At March 31, 2011, cash and cash equivalents and available-for-sale investments were \$378 million compared to \$310 million at June 30, 2010. The Company believes it can meet its cash and working capital requirements, capital addition needs and share repurchase, cash dividend, investment and acquisition strategies for the foreseeable future through currently available funds, cash generated from operations and maturities or sales of available-for-sale investments. The acquisitions subsequent to March 31, 2011 of Boston Biochem, Inc. and Boston Biochem Limited for \$8.0 million and Tocris Holdings Limited and Subsidiaries for £75 million (approximately \$124 million) were funded with cash and cash equivalents on hand at March 31, 2011 and 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 \$92.5 million from operating activities in the first nine months of fiscal 2011 compared to \$79.5 million in the first nine months of fiscal 2010. The increase from the prior year was primarily due to changes in currently payable and deferred income taxes as a result of the usage of a foreign tax credit carryforward from fiscal 2010 related to the foreign exchange loss on the repatriation of earnings from R&D Europe and a decrease in U.S income tax deposits made in the first nine months of fiscal 2011 of \$6.1 million as compared to the same prior year period.

Cash Flows From Investing Activities:

Capital expenditures for fixed assets for the first nine months of fiscal 2011 and 2010 were \$2.4 million and \$3.5 million, respectively. Included in capital expenditures for the first nine months of fiscal 2010 was \$1.6 million related to remodeling of laboratory space at the Company's Minneapolis facility. The remaining capital additions were mainly for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2011 are expected to be approximately \$2.3 million and are expected to be financed through currently available funds and cash generated from operating activities.

During the nine months ended March 31, 2011, the Company purchased \$132 million and had sales or maturities of \$129 million of available-for-sale investments. During the nine months ended March 31, 2010, the Company purchased \$124 million and had sales or maturities of \$34.0 million of available-for-sale investments. 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.

Cash Flows From Financing Activities:

Cash of \$3.4 million and \$3.0 million was received during the nine months ended March 31, 2011 and 2010, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of \$419,000 and \$177,000 for the nine months ended March 31, 2011 and 2010, respectively.

During the first nine months of fiscal 2011 and 2010, the Company purchased 4,923 and 9,827 shares of common stock for its employee stock bonus plans at a cost of \$294,000 and \$607,000, respectively.

During the first nine months of fiscal 2011 and 2010, the Company paid cash dividends of \$29.7 million and \$28.7 million, respectively, to all common shareholders. On May 3, 2011, the Company announced the payment of a \$0.27 per share cash dividend. The dividend of approximately \$10.0 million will be payable May 27, 2011 to all common shareholders of record on May 13, 2011.

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During the first nine months of fiscal 2011, the Company disbursed \$1.9 million for the settlement of common stock purchased and retired during the fourth quarter of fiscal 2010. During the first nine months of fiscal 2010, the Company purchased and retired approximately 23,000 shares of common stock at a market value of \$1.4 million.

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, 2011.

Critical Accounting Policies:

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2010. 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 goodwill and valuation of investments in unconsolidated entities. There have been no significant changes in estimates in fiscal 2011 that would require disclosure. There have been no changes to the Company's policies in fiscal 2011.

Forward Looking Information and Cautionary Statements:

This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those regarding the Company's expectations as to the effective tax rate, pending litigation, the amount of capital expenditures for the remainder of the fiscal year 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 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 into China. For additional information concerning such factors, see the Company's Annual Report on Form 10-K for fiscal 2010 as filed with the Securities and Exchange Commission.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

At March 31, 2011, the Company had a portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$219 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. For the nine months ended March 31, 2011, approximately 29.4% of consolidated net sales were made in foreign currencies, including 15.2% in euros, 6.6% in British pound sterling, 2.9% in Chinese yuan and the remaining 4.7% 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 because 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:

	<i>Quarter Ended</i>		<i>Nine Months Ended</i>	
	<i>3/31/11</i>	<i>3/31/10</i>	<i>3/31/11</i>	<i>3/31/10</i>
British pound sterling	\$ 1.61	\$ 1.55	\$ 1.58	\$ 1.60
Euro	1.39	1.37	1.35	1.43
Chinese yuan	.152	.147	.150	.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 March 31, 2011, the Company had the following trade receivable and intercompany payables denominated in one currency but receivable or payable in another currency (in thousands):

	<i>Denominated Currency</i>	<i>U.S. Dollar Equivalent</i>
Accounts receivable in:		
Euros	£ 1,098	\$ 1,762
Other European currencies	£ 1,000	\$ 1,605
Intercompany payable in:		
Euros	£ 1,721	\$ 2,762
U.S. dollars	£ 3,473	\$ 5,571
U.S. dollars	yuan 3,857	\$ 589

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.

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The effects of a hypothetical simultaneous 10% appreciation in the U.S. dollar from March 31, 2011 levels against the euro, British pound sterling and Chinese yuan are as follows (in thousands):

Decrease in translation of 2011 earnings into U.S. dollars (annualized)	\$ 2,431
Decrease in translation of net assets of foreign subsidiaries	9,144
Additional transaction losses	616

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 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, if upheld by the Federal Circuit Court of Appeals, 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 Court, 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 final judgment in favor of Streck in the amount of approximately \$170,000 including court related costs.

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On September 30, 2010, the Nebraska Court upheld the jury verdict and, in a related action, reversed the ruling of the USPTO interference board. The Nebraska Court entered an injunction prohibiting the making and selling of the products that are the subject of the lawsuit, but stayed a portion of the injunction to allow the Company to sell inventory on-hand through December 20, 2010. The Company has appealed the adverse decisions of the Nebraska Court to the Federal Circuit Court of Appeals. If the Company's appeal is successful, after cancellation of the Streck patents, the Company may 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.

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, 2010.

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, 2011:

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	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
1/1/11-1/31/11	0	\$ 0	0	\$50.6 million
2/1/11-2/28/11	0	\$ 0	0	\$50.6 million
3/1/11-3/31/11	0	\$ 0	0	\$50.6 million

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)**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 10, 2011

/s/ Thomas E. Oland
Thomas E. Oland
President, Chief Executive Officer

Date: May 10, 2011

/s/ Gregory J. Melsen
Gregory J. Melsen
Chief Financial Officer

**EXHIBIT INDEX
TO
FORM 10-Q
TECHNE CORPORATION**

Exhibit #	Description
31.1	Section 302 Certification
31.2	Section 302 Certification
32.1	Section 906 Certification
32.2	Section 906 Certification
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.