TECHNE CORP /MN/
Form 10-Q
February 09, 2011

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

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

**For the quarterly period ended December 31, 2010,**

**or**

o **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<br>(State or other jurisdiction of incorporation or organization) | 41-1427402<br>(I.R.S. Employer Identification No.) |
| 614 McKinley Place N.E.<br>Minneapolis, MN 55413<br>(Address of principal executive offices) (Zip Code) | (612) 379-8854<br>(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 þ No o

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 þ No o

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 þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). o Yes þ No

At February 3, 2011, 37,119,243 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)

| | *12/31/10* | *6/30/10* |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 135,875 | $ 94,139 |
| Short-term available-for-sale investments | 58,987 | 44,672 |
| Trade accounts receivable, net | 28,228 | 30,850 |
| Income tax receivable | 1,671 | 1,755 |
| Other receivables | 1,986 | 1,532 |
| Inventories | 13,736 | 13,737 |
| Deferred income taxes | 12,119 | 13,379 |
| Prepaid expenses | 958 | 976 |
| Total current assets | 253,560 | 201,040 |
| Available-for-sale investments | 158,666 | 171,171 |
| Property and equipment, net | 95,096 | 97,400 |
| Goodwill | 25,068 | 25,068 |
| Intangible assets, net | 1,703 | 2,044 |
| Deferred income taxes | 1,063 | 1,011 |
| Investments in unconsolidated entities | 20,012 | 20,559 |
| Other assets | 440 | 523 |
| | $ 555,608 | $ 518,816 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Trade accounts payable | $ 3,918 | $ 5,232 |
| Salaries, wages and related accruals | 3,087 | 3,781 |
| Other accounts payable and accrued expenses | 2,443 | 4,375 |
| Income taxes payable | 4,224 | 3,636 |
| Total current liabilities | 13,672 | 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 | 127,228 | 122,537 |
| Retained earnings | 433,387 | 400,119 |
| Accumulated other comprehensive loss | (19,050) | (21,234) |
| Total stockholders equity | 541,936 | 501,792 |

| | | |
|---|---|---|
| | $ 555,608 | $ 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)

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Net sales | $ 67,708 | $ 65,521 | $ 135,653 | $ 132,055 |
| Cost of sales | 15,218 | 13,329 | 30,459 | 26,230 |
| Gross margin | 52,490 | 52,192 | 105,194 | 105,825 |
| Operating expenses: | | | | |
| Selling, general and administrative | 8,365 | 9,007 | 15,917 | 17,045 |
| Research and development | 6,603 | 6,391 | 13,222 | 12,545 |
| Amortization of intangible assets | 171 | 240 | 341 | 480 |
| Total operating expenses | 15,139 | 15,638 | 29,480 | 30,070 |
| Operating income | 37,351 | 36,554 | 75,714 | 75,755 |
| Other income (expense): | | | | |
| Interest income | 1,020 | 1,156 | 1,867 | 2,324 |
| Other non-operating expense, net | (698) | (1,011) | (955) | (1,673) |
| Total other income | 322 | 145 | 912 | 651 |
| Earnings before income taxes | 37,673 | 36,699 | 76,626 | 76,406 |
| Income taxes | 11,139 | 11,978 | 23,719 | 24,913 |
| Net earnings | $ 26,534 | $ 24,721 | $ 52,907 | $ 51,493 |
| Earnings per share: | | | | |
| Basic | $ 0.72 | $ 0.66 | $ 1.43 | $ 1.38 |
| Diluted | $ 0.71 | $ 0.66 | $ 1.42 | $ 1.38 |
| Cash dividends per common share | $ 0.27 | $ 0.26 | $ 0.53 | $ 0.51 |
| Weighted average common shares outstanding: | | | | |
| Basic | 37,093 | 37,252 | 37,066 | 37,248 |
| Diluted | 37,156 | 37,353 | 37,131 | 37,346 |

See Notes to Condensed Consolidated Financial Statements.

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

| | *Six Months Ended* | |
|---|---|---|
| | *12/31/10* | *12/31/09* |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 52,907 | $ 51,493 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,058 | 4,065 |
| Deferred income taxes | 1,355 | (577) |
| Stock-based compensation expense | 850 | 879 |
| Excess tax benefit from stock option exercises | (413) | (51) |
| Losses by equity method investees | 547 | 834 |
| Other | 183 | 75 |
| Change in operating assets and operating liabilities: | | |
| Trade accounts and other receivables | 1,159 | 3,286 |
| Inventories | (234) | (2,068) |
| Prepaid expenses | 27 | (194) |
| Trade accounts and other accounts payable and accrued expenses | (842) | (585) |
| Salaries, wages and related accruals | (417) | (281) |
| Income taxes payable/receivable | 956 | (614) |
| Net cash provided by operating activities | 60,136 | 56,262 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment | (1,765) | (2,155) |
| Purchase of available-for-sale investments | (80,589) | (12,420) |
| Proceeds from sales of available-for-sale investments | 55,346 | 1,122 |
| Proceeds from maturities of available-for-sale investments | 24,432 | 12,405 |
| Distribution from unconsolidated entity | 0 | 50 |
| Net cash used in investing activities | (2,576) | (998) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from stock option exercises | 3,429 | 634 |
| Excess tax benefit from stock option exercises | 413 | 51 |
| Purchase of common stock for stock bonus plans | (294) | (607) |
| Repurchase of common stock | (1,940) | 0 |
| Dividends paid | (19,640) | (18,996) |
| Net cash used in financing activities | (18,032) | (18,918) |
| Effect of exchange rate changes on cash and cash equivalents | 2,208 | (1,735) |

| | | |
|---|---|---|
| Net increase in cash and cash equivalents | 41,736 | 34,611 |
| Cash and cash equivalents at beginning of period | 94,139 | 160,940 |
| Cash and cash equivalents at end of period | $ 135,875 | $ 195,551 |

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 $218 million at December 31, 2010 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 is 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.

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**B. Balance Sheet Detail:**

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

| | *12/31/10* | *6/30/10* |
|---|---|---|
| Trade Accounts Receivable | | |
| Trade accounts receivable | $ 28,681 | $ 31,197 |
| Allowance for doubtful accounts | (453) | (347) |
| Net Trade Accounts Receivable | $ 28,228 | $ 30,850 |
| | | |
| Inventories | | |
| Raw materials | $ 5,228 | $ 5,433 |
| Finished goods | 8,508 | 8,304 |
| Total Inventories | $ 13,736 | $ 13,737 |
| | | |
| Property and Equipment | | |
| Land | $ 7,453 | $ 7,419 |
| Buildings and improvements | 118,641 | 118,412 |
| Laboratory equipment | 27,137 | 26,482 |
| Office equipment | 5,092 | 4,672 |
| | 158,323 | 156,985 |
| Accumulated depreciation and amortization | (63,227) | (59,585) |
| Net Property and Equipment | $ 95,096 | $ 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 | (5,142) | (4,801) |
| Net Intangible Assets | $ 1,703 | $ 2,044 |

**C. Income Taxes:**

Income taxes for the quarter and six months ended December 31, 2010 were provided at rates of 29.6% and 31.0% of consolidated earnings before income taxes, as compared to 32.6% for both of the same prior-year periods. The improvement in the tax rate for the quarter and six months ended December 31, 2010 was a result of the renewal of the U.S. research and development credit and an increase in the deduction for qualified production activities. A $898,000 benefit, in the second quarter of fiscal 2011, from the renewal of the research and development credit included $659,000 related to the previous three calendar quarters. 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.

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**D. Earnings Per Share:**

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

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Weighted average common shares outstanding-basic | 37,093 | 37,252 | 37,066 | 37,248 |
| Dilutive effect of stock options | 63 | 101 | 65 | 98 |
| Weighted average common shares outstanding-diluted | 37,156 | 37,353 | 37,131 | 37,346 |

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 71,000 and 90,000 for the quarter and six months ended December 31, 2010, respectively, and 2,000 for both the quarter and six months ended December 31, 2009.

**E. Segment Information:**

The Company has three reportable operating segments based on the nature of products and geographic location: biotechnology, R&D Systems Europe Ltd. (R&D Europe), and hematology. The biotechnology segment consists of R&D Systems, Inc. (R&D Systems) Biotechnology Division, BiosPacific, Inc. (BiosPacific) and R&D Systems China Co. Ltd. (R&D China), which develop, manufacture and sell biotechnology research and diagnostic products world-wide. R&D Europe distributes Biotechnology Division products throughout Europe. The hematology segment develops and manufactures hematology controls and calibrators for sale world-wide.

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

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| External sales | | | | |
| Biotechnology | $ 44,435 | $ 42,421 | $ 91,085 | $ 86,449 |
| R&D Europe | 18,645 | 18,775 | 35,036 | 36,613 |
| Hematology | 4,628 | 4,325 | 9,532 | 8,993 |
| Net sales | $ 67,708 | $ 65,521 | $ 135,653 | $ 132,055 |
| Earnings before income taxes | | | | |
| Biotechnology | $ 30,416 | $ 29,333 | $ 62,370 | $ 60,913 |
| R&D Europe | 7,537 | 7,981 | 14,043 | 15,860 |
| Hematology | 1,427 | 1,538 | 3,349 | 3,391 |
| Segment earnings before income taxes | 39,380 | 38,852 | 79,762 | 80,164 |
| Unallocated corporate expenses and equity method investee losses | (1,707) | (2,153) | (3,136) | (3,758) |
| Earnings before income taxes | $ 37,673 | $ 36,699 | $ 76,626 | $ 76,406 |

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**F. Stock Options:**

Option activity under the Company s stock option plans during the six months ended December 31, 2010 was as follows:

| | *Shares (in 000 s)* | *Weighted Average Exercise Price* | *Weighted Average Contractual Life (Yrs.)* | *Aggregate Intrinsic Value* |
|---|---|---|---|---|
| Outstanding at June 30, 2010 | 440 | $ 54.26 | | |
| Granted | 45 | $ 61.12 | | |
| Exercised | (95) | $ 42.06 | | |
| Outstanding at December 31, 2010 | 390 | $ 58.03 | 6.1 | $3.1 million |
| Exercisable at December 31, 2010 | 317 | $ 56.22 | 6.1 | $3.0 million |

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

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Dividend yield | 1.8% | 1.6% | 1.8% | 1.6% |
| Expected annualized volatility | 27% | 30% | 22%-27% | 24%-30% |
| Risk free interest rate | 2.0% | 3.1% | 1.3%-2.0% | 2.5%-3.1% |
| Expected life | 7 years | 8 years | 7 years | 7 years |
| Weighted average fair value of options granted | $ 15.70 | $ 19.90 | $ 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):

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Options exercised intrinsic value | $ 1,505 | $ 449 | $ 1,822 | 465 |
| Options vested fair value | 628 | 697 | 677 | 717 |

Stock-based compensation cost of $714,000 and $850,000 was included in selling, general and administrative expense for the quarter and six months ended December 31, 2010, respectively. Stock-based compensation cost of $777,000 and $879,000 was included in selling, general and administrative expense for the quarter and six months ended December 31, 2009, respectively. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. As of December 31, 2010, there were 73,000 non-vested options outstanding with a weighted average grant date fair value of $12.15. As of December 31, 2010, there was $664,000 of total unrecognized compensation cost related to non-vested stock options that will be expensed in fiscal 2011 through 2014.

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**G. Comprehensive Income and Accumulated Other Comprehensive Loss:**
Comprehensive income was as follows (in thousands):

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Net earnings | $ 26,534 | $ 24,721 | $ 52,907 | $ 51,493 |
| Foreign currency translation adjustments | (1,378) | 1,113 | 2,521 | (2,182) |
| Unrealized gain (loss) on available-for-sale investments, net of tax | (381) | (40) | (337) | 184 |
| Comprehensive income | $ 24,775 | $ 25,794 | $ 55,091 | $ 49,495 |

Accumulated other comprehensive loss consists of (in thousands):

| | *12/31/10* | *6/30/10* |
|---|---|---|
| Foreign currency translation adjustments | $ (19,446) | $ (21,967) |
| Unrealized gains on available-for-sale investments, net of tax | 396 | 733 |
| Accumulated other comprehensive loss | $ (19,050) | $ (21,234) |

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

**Overview:**

TECHNE Corporation and Subsidiaries (the Company) are engaged in the development, manufacture and sale of biotechnology products and hematology calibrators and controls. These activities are conducted domestically through its wholly-owned subsidiaries, Research and Diagnostic Systems, Inc (R&D Systems) and BiosPacific, Inc. (BiosPacific). The Company distributes biotechnology products in Europe through its wholly-owned U.K. subsidiary, R&D Systems Europe Ltd. (R&D Europe). R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France. The Company distributes biotechnology products in China through its wholly-owned subsidiary, R&D Systems China, Co. Ltd. (R&D China).

The Company has three reportable operating segments based on the nature of products and geographic location: biotechnology, R&D Europe and hematology. The biotechnology segment consists of R&D Systems Biotechnology Division, BiosPacific and R&D China, which develop, manufacture and sell biotechnology research and diagnostic products world-wide. R&D Europe distributes Biotechnology Division products throughout Europe. The hematology segment develops and manufactures hematology controls and calibrators for sale world-wide.

**Results of Operations for the Quarters and Six Months Ended December 31, 2010 and 2009:**

Consolidated net sales and consolidated net earnings increased 3.3% and 7.3%, respectively, for the quarter ended December 31, 2010 compared to the quarter ended December 31, 2009. Consolidated net sales and consolidated net earnings both increased 2.7% for the six months ended December 31, 2010 compared to the six months ended December 31, 2009. Consolidated net sales and net earnings were negatively affected by changes in exchange rates from the prior year used to convert consolidated net sales and consolidated net earnings in foreign currencies into U.S. dollars. The unfavorable impact on consolidated net sales of the change from the prior year in exchange rates used to convert sales in foreign currencies (primarily British pounds sterling and euros) into U.S. dollars was $1.2 million and $2.4 million for the quarter and six months ended December 31, 2010, respectively. The unfavorable impact on consolidated net earnings of the change from the prior year in exchange rates used to convert foreign currency financial statements to U.S. dollars was $302,000 and $643,000 for the quarter and six months ended December 31, 2010, respectively. In the first six months of fiscal 2011, the Company generated cash of $60.1 million from operating activities, paid cash dividends of $19.6 million, and paid $1.9 million for the repurchase of stock. At December 31, 2010 the Company had cash, cash equivalents and available-for-sale investments of $354 million compared to $310 million at June 30, 2010.

**Net Sales:**

Consolidated net sales for the quarter and six months ended December 31, 2010 were $67.7 million and $135.7 million, respectively, increases of $2.2 million (3.3%) and $3.6 million (2.7%) from the quarter and six months ended December 31, 2009. Excluding the effect of changes in foreign currency exchange rates, consolidated net sales increased 5.1% and 4.5% for the quarter and six months ended December 31, 2010, respectively, from the comparable prior-year periods. Included in consolidated net sales for the quarter and six months ended December 31, 2010 was $460,000 and $674,000 of sales of new biotechnology products which had their first sale in fiscal 2011.

Biotechnology net sales increased $2.0 million (4.8%) and $4.6 million (5.4%) for the quarter and six months ended December 31, 2010 compared to the same prior-year periods. The increase in the quarter and six month period was mainly the result of increased sales volume. North American biotechnology sales to industrial pharmaceutical and biotechnology customers increased 3.9% and 3.5% during the quarter and six months ended December 31, 2010, respectively, while biotechnology sales to academic customers increased 6.7% and 8.4% during the quarter and six months, respectively. Sales in China grew 19.2% and 16.4%, respectively, during the second quarter and first six months of fiscal 2011, while sales to Pacific Rim distributors decreased 4.5% during the second quarter, but increased 1.8% for the first six months of fiscal 2011.

R&D Europe net sales decreased $130,000 (0.7%) and $1.6 million (4.3%) for the quarter and six months ended December 31, 2010, respectively, from the comparable prior-year periods. R&D Europe net sales increased 5.5% and 2.2% for the quarter and six months ended December 31, 2010 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 $531,000 and $816,000 for the quarter and six months ended December 31, 2010, respectively. In addition, consolidated net sales were impacted unfavorably by $638,000 and $1.6 million for the quarter and six months ended December 31, 2010, respectively, as a result of the change in exchange rates used to convert British pound sterling to U.S. dollars.

Hematology sales increased $303,000 (7.0%) and $539,000 (6.0%) for the quarter and six months ended December 31, 2010 compared to the same prior-year periods, as a result of increased sales volume.

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**Gross Margins:**

Consolidated gross margin for the quarter ended December 31, 2010 increased $298,000, but decreased $631,000 for the six months ended December 31, 2010 from the same prior-year periods. Biotechnology gross margin increased $973,000 and $1.8 million for the quarter and six months ended December 31, 2010 as a result of increased net sales partially offset by a decrease in gross margin percentage. R&D Europe gross margin decreased $564,000 and $2.3 million for the quarter and six months ended December 31, 2010 as compared to the same prior-year periods. Approximately $1.2 million and $2.4 million of the decrease in R&D Europe gross margins, respectively, was the result of changes in exchange rates used to translate sales in foreign currencies into U.S. dollars. Approximately 15.0% and 6.4% of consolidated net sales for the six months ended December 31, 2010 were made in euro and British pound sterling, respectively. The average euro exchange rate declined 8.8% and 8.3% against the U.S. dollar for the quarter and six months ended December 31, 2010 ( :$1.34 and :$1.33) compared to the same prior-year periods ( :$1.47 and :$1.45). The average British pound sterling exchange rate declined 3.7% and 4.3% against the U.S. dollar for the quarter and six months ended December 31, 2010 (£:$1.57 and £:$1.56) compared to the same prior-year periods (£:$1.63 and £:$1.63). Excluding the effect of the exchange rate on sales, gross margins for R&D Europe increased $605,000 and $62,000 for the quarter and six months ended December 31, 2010.

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

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Biotechnology | 77.8% | 80.0% | 78.1% | 80.5% |
| R&D Europe | 51.2% | 53.9% | 49.4% | 53.7% |
| Hematology | 41.5% | 47.0% | 45.3% | 48.7% |
| Consolidated | 77.5% | 79.7% | 77.5% | 80.1% |

The consolidated gross margin, as a percentage of consolidated net sales, was 77.5% for both the quarter and six months ended December 31, 2010, compared to 79.7% and 80.1% for the quarter and six months ended December 31, 2009, respectively. R&D Europe gross margin percentages for the quarter and six months ended December 31, 2010 were 51.2% and 49.4%, respectively, compared to 53.9% and 53.7% for the same prior-year periods, mainly as a result of the effect of exchange rate changes on net sales discussed above. Biotechnology gross margin percentages were 77.8% and 78.1% for the quarter and six months ended December 31, 2010 compared to 80.0% and 80.5% for the quarter and six months ended December 31, 2009. The decrease in the Biotechnology gross margin percentage was mainly the result of changes in product mix and $220,000 additional royalty expense and royalty initiation fees related to new licensing agreements in the first quarter of fiscal 2011. Royalty initiation fees in the second quarter of fiscal 2011 were not material. Hematology gross margin percentages for the quarter and six months ended December 31, 2010 were 41.5% and 45.3% compared to 47.0% and 48.7% for the quarter and six months ended December 31, 2009 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):

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Biotechnology | $ 4,780 | $ 5,056 | $ 9,363 | $ 9,790 |
| R&D Europe | 2,017 | 2,159 | 3,859 | 4,111 |
| Hematology | 336 | 366 | 664 | 736 |
| Unallocated corporate expenses | 1,232 | 1,426 | 2,031 | 2,408 |
| Selling, general and administrative expenses | $ 8,365 | $ 9,007 | $ 15,917 | $ 17,045 |

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Selling, general and administrative expenses for the quarter and six months ended December 31, 2010 decreased $642,000 (7.1%) and $1.1 million (6.6%) from the same prior-year periods. The decrease in selling, general and administrative expense for the quarter ended December 31, 2010 resulted primarily from decreased legal expense of $153,000, lower printing costs of approximately $390,000 due to the printing of the annual Biotechnology catalog in the third quarter of fiscal 2011 compared to the second quarter in fiscal 2010, and the effect of the change in the exchange rate used to convert R&D Europe expenses from British pounds and euros into U.S. dollars of $116,000. The decrease in selling, general and administrative expense for the six months ended December 31, 2010 resulted from decreased legal expense of $260,000, lower profit sharing expense of $286,000 lower catalog printing costs of $390,000, and the effect of the change in the exchange rate used to convert R&D Europe expenses from British pounds and euros into U.S. dollars of $250,000.

**Research and Development Expenses:**

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

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| Biotechnology | $ 6,379 | $ 6,190 | $ 12,800 | $ 12,146 |
| R&D Europe | 0 | 0 | 0 | 0 |
| Hematology | 224 | 201 | 422 | 399 |
| Research and development expenses | $ 6,603 | $ 6,391 | $ 13,222 | $ 12,545 |

Research and development expenses for the quarter and six months ended December 31, 2010 increased $212,000 (3.3%) and $677,000 (5.4%), respectively, from the quarter and six months ended December 31, 2009. The increase in research and development expenses was mainly due to increases in personnel and supply costs associated with the continuous development and release of new high-quality biotechnology products.

**Interest Income:**

Interest income decreased $136,000 and $457,000 for the quarter and six months ended December 31, 2010 from the comparable prior-year periods, primarily as a result of lower rates of return on cash and available-for-sale investments, offset in part by higher cash and available-for-sale investment balances.

**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.

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *10/31/09* |
| Foreign currency gains (losses) | $ (87) | $ (100) | $ 418 | $ 43 |
| Rental income | 138 | 115 | 261 | 196 |
| Real estate taxes, depreciation and utilities | (531) | (530) | (1,087) | (1,078) |
| Losses by equity method investees | (218) | (496) | (547) | (834) |
| Other non-operating expense, net | $ (698) | $ (1,011) | $ (955) | $ (1,673) |

**Income Taxes:**

Income taxes for the quarter and six months ended December 31, 2010 were provided at rates of 29.6% and 31.0% of consolidated earnings before income taxes, as compared to 32.6% for both of the same prior-year periods. The improvement in the tax rate for the quarter and six months ended December 31, 2010 was a result of the renewal of the U.S. research and development credit and an increase in the deduction for qualified production activities. A $898,000 benefit, in the second quarter of fiscal 2011, from the renewal of the research and development credit included $659,000 related to the previous three calendar quarters. Income taxes for the quarter ended December 31, 2010 included a $431,000 research and development credit for the January to June 2010 period and an additional $467,000 credit for the July to December 2010 period. 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%.

**Liquidity and Capital Resources:**

At December 31, 2010, cash and cash equivalents and available-for-sale investments were $354 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 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 $60.1 million from operating activities in the first six months of fiscal 2011 compared to $56.3 million in the first six months of fiscal 2010. The increase from the prior year was primarily due to increased net earnings and changes in operating assets and liabilities.

*Cash Flows From Investing Activities:*

Capital expenditures for fixed assets for the first six months of fiscal 2011 and 2010 were $1.8 million and $2.2 million, respectively. Included in capital expenditures for the first six months of fiscal 2010 was $960,000 related to remodeling of laboratory space at the Company s Minneapolis facility. The remaining capital additions were mainly for laboratory and computer equipment. Capital expenditures in the remainder of fiscal 2011 are expected to be approximately $3.7 million and are expected to be financed through currently available funds and cash generated from operating activities.

During the six months ended December 31, 2010, the Company purchased $80.6 million and had sales or maturities of $79.8 million of available-for-sale investments. During the six months ended December 31, 2009, the Company purchased $12.4 million and had sales or maturities of $13.5 million of available-for-sale investment. The Company s investment policy is to place excess cash in bonds and other investments with maturities of less than three years. The objective of this policy is to obtain the highest possible return while minimizing risk and keeping the funds accessible.

During the six months ended December 31, 2009, the Company received $50,000 in a distribution from its investment in Nephromics, LLC (Nephromics). The Company accounts for its investment in Nephromics under the equity method of accounting as Nephromics is a limited liability company.

*Cash Flows From Financing Activities:*

Cash of $3.4 million and $634,000 was received during the six months ended December 31, 2010 and 2009, respectively, from the exercise of stock options. The Company also recognized excess tax benefits from stock option exercises of $413,000 and $51,000 for the six months ended December 31, 2010 and 2009, respectively.

During the first six 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 six months of fiscal 2011 and 2010, the Company paid cash dividends of $19.6 million and $19.0 million, respectively, to all common shareholders. On February 1, 2011, the Company announced the payment of a $0.27 per share cash dividend. The dividend of approximately $10.0 million will be payable February 28, 2011 to all common shareholders of record on February 11, 2011.

During the first six 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.

**Contractual Obligations:**

There were no material changes outside the ordinary course of business in the Company s contractual obligations during the quarter ended December 31, 2010.

**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.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2010, the Company had a portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of $218 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 six months ended December 31, 2010, approximately 28.7% of consolidated net sales were made in foreign currencies including 15.0% in euros, 6.4% in British pound sterling, 2.9% in Chinese yuan and the remaining 4.4% in other European currencies. As a result, the Company is exposed to market risk mainly from foreign exchange rate fluctuations of the euro, British pound sterling and the Chinese yuan as compared to the U.S. dollar 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:

| | *Quarter Ended* | | *Six Months Ended* | |
|---|---|---|---|---|
| | *12/31/10* | *12/31/09* | *12/31/10* | *12/31/09* |
| British pound sterling | $ 1.57 | $ 1.63 | $ 1.56 | $ 1.63 |
| Euro | 1.34 | 1.47 | 1.33 | 1.45 |
| Chinese yuan | .151 | .147 | .149 | .146 |

The Company s exposure to foreign exchange rate fluctuations also arises from trade receivables and intercompany payables denominated in one currency in the financial statements, but receivable or payable in another currency. At December 31, 2010, 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 | £ 807 | $ 1,244 |
| Other European currencies | £ 812 | $ 1,253 |
| | | |
| Intercompany payable in: | | |
| Euros | £ 1,679 | $ 2,589 |
| U.S. dollars | £ 2,216 | $ 3,417 |
| U.S. dollars | yuan 5,282 | $ 801 |

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 December 31, 2010 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) | $2,164 |
| Decrease in translation of net assets of foreign subsidiaries | 8,137 |
| Additional transaction losses | 422 |

## 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 December 31, 2010:

| 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 |
|---|---|---|---|---|
| 10/1/10-10/31/10 | 0 | $ 0 | 0 | $50.6 million |
| 11/1/10-11/30/10 | 0 | $ 0 | 0 | $50.6 million |
| 12/1/10-12/30/10 | 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<br>(Company) |
| Date: February 9, 2011 | /s/ Thomas E. Oland<br>Thomas E. Oland<br>President, Chief Executive Officer |
| Date: February 9, 2011 | /s/ Gregory J. Melsen<br>Gregory J. Melsen<br>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 December 31, 2010, 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.