

Edgar Filing: TECHNE CORP /MN/ - Form 10-K

TECHNE CORP /MN/  
Form 10-K  
August 30, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2006

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-17272

TECHNE CORPORATION  
(Exact name of Registrant as specified in its charter)

Minnesota 41-1427402  
(State of Incorporation) (IRS Employer Identification No.)

614 McKinley Place N.E., Minneapolis, MN 55413  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (612) 379-8854

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$.01 par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes (X) No ( )

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ( ) No (X)

Indicate by check mark whether the Company (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: (X)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act. Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( )

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

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based upon the closing sale price on August 25, 2006 as reported on The Nasdaq Stock Market was approximately \$1.7 billion. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded.

Shares of \$.01 par value Common Stock outstanding at August 25, 2006:  
39,380,682.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2006 Annual Meeting of Shareholders are incorporated by reference into Part III.

### TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	3
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	11
Item 2. Properties	11
Item 3. Legal Proceedings	12
Item 4. Submission of Matters to a Vote of Security Holders	12
Supplemental Item--Executive Officers of the Company	12
PART II	
Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	24
Item 8. Financial Statements and Supplementary Data	25
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A. Controls and Procedures	42
Item 9B. Other Information	44
PART III	
Item 10. Directors and Executive Officers	44
Item 11. Executive Compensation	44
Item 12. Security Ownership of Certain Beneficial Owners	

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

and Management and Related Stockholder Matters	44
Item 13. Certain Relationships and Related Transactions	44
Item 14. Principal Accountant Fees and Services	45
PART IV	
Item 15. Exhibits and Financial Statement Schedules	45
SIGNATURES	

2

### PART I

#### ITEM 1. BUSINESS

##### OVERVIEW

TECHNE Corporation (the Company) is a holding company which has two wholly-owned operating subsidiaries: Research and Diagnostic Systems, Inc. (R&D Systems) located in Minneapolis, Minnesota and R&D Systems Europe Ltd. (R&D Europe) located in Abingdon, England. R&D Systems is a specialty manufacturer of biological products. Its two major operating segments are hematology controls, which are used in hospital and clinical laboratories to check the performance of blood analysis instruments, and biotechnology products, including purified proteins (cytokines) and antibodies which are sold exclusively to the research market and assay kits which are sold to the research and clinical diagnostic markets. R&D Systems acquired two subsidiaries effective July 1, 2005: Fortron Bio Science, Inc. (Fortron) and BiosPacific, Inc. (BiosPacific). R&D Europe distributes R&D Systems' biotechnology products in Europe. R&D Europe has a German sales subsidiary, R&D Systems GmbH (R&D GmbH) and a sales office in France.

In July 2005, the Company acquired Fortron Bio Science, Inc. and BiosPacific, Inc. Fortron, a developer and manufacturer of monoclonal and polyclonal antibodies, antigens and other biological reagents, was relocated to the Company's Minneapolis facility in the first quarter of fiscal 2006. BiosPacific, located in Emeryville, California, is a worldwide supplier of biologics to manufacturers of in vitro diagnostic systems (IVDs) and immunodiagnostic kits. BiosPacific is the primary distributor of Fortron products. Fortron and BiosPacific had shared a unique strategic relationship since 1992 that combined Fortron's development and manufacturing excellence with BiosPacific's marketing and sales expertise. The acquisitions allow the Company to expand into the diagnostic market by offering research reagents that may have future diagnostic applications and/or develop products specifically for diagnostic markets.

##### THE MARKET

The Company manufactures and sells products for the clinical diagnostics market (hematology controls and calibrators) and the biotechnology research and clinical diagnostics market (cytokines, assays and related products). In fiscal 2006, 2005 and 2004, hematology segment revenues accounted for approximately 8%, 9% and 11%, respectively, of consolidated revenues. Revenues from the Company's biotechnology segment were 66%, 62% and 62% and revenues from R&D Europe were 26%, 29% and 27% of consolidated revenues for fiscal 2006, 2005 and 2004, respectively.

Biotechnology Products

R&D Systems is the world's leading supplier of cytokines and cytokine-related reagents to the biotechnology research community. These valuable proteins exist in minute amounts in different types of cells and can be extracted from these cells or made through recombinant DNA technology. Currently nearly all of the Company's cytokines are produced by recombinant DNA technology.

The growing interest by academic and commercial researchers in cytokines exists because of the profound effect a tiny amount of a cytokine can have on the cells and tissues of the body. Cytokines are intercellular messengers. They act as signals by interacting with specific receptors on the affected cells and trigger events that can lead to significant changes in a cell, tissue or organism. For example, cytokines can signal a cell to differentiate, i.e., to acquire the features necessary for it to take on a more specialized task. Another example of cytokine action is the key role played in stimulating cells surrounding a wound to grow and divide, to attract migratory cells to the injury site and mediate the healing process.

3

In recent years, R&D Systems has also added enzymes and intracellular cell signaling reagents to its product portfolio. Enzymes are biological catalysts that accelerate a variety of chemical reactions in cells. Most enzymes, including proteases, kinases and phosphatases, are proteins that modify the structure and function of other proteins. Many enzymes are important markers and therapeutic targets for diseases such as cancer, Alzheimer's, arthritis, autoimmunity, diabetes, hypertension, obesity, AIDS and SARS.

R&D Systems markets cytokine assay kits under the tradename Quantikine(R). These kits are used by scientific researchers to quantify the level of a specific cytokine in a sample of serum, plasma or other biological fluid. Cytokine quantification is performed for basic research and in pharmaceutical discovery and development programs.

R&D Systems currently manufactures and sells in excess of 10,000 biotechnology products.

Biotechnology Products

Cytokines and Enzymes. Cytokines, extracted from natural sources or produced using recombinant DNA technology, are manufactured to the highest purity. Enzymes and related factors including enzyme substrates and inhibitors are highly purified and characterized to ensure the highest biological activity.

Antibodies. Antibodies are proteins produced by the immune system of an animal that specifically recognize and bind to target molecules. The Company's polyclonal antibodies are produced in animals (primarily goats) and purified from the animals' blood. Monoclonal antibodies are made by immortalized cell lines derived from the individual antibody producing cells of a rodent. Monoclonal antibodies are secreted from these cell lines during cell culture and purified from the cell culture medium.

Assay Kits. This product line includes R&D Systems' human and animal Quantikine kits which allow research scientists to quantify the amount of a specific analyte (cytokine, adhesion molecule, enzyme, etc.) in a sample

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

of serum or other biological fluids.

**Clinical Diagnostic Kits.** R&D Systems has received FDA marketing clearance for its erythropoietin (EPO), transferrin receptor (TfR) and Beta2-microglobulin diagnostic kits.

**Flow Cytometry Products.** This product line includes R&D Systems' labeled antibodies and Fluorokine(R) kits, which are used to measure the presence or absence of cell surface receptors for specific cytokines by flow cytometry.

**Intracellular Cell Signaling Products.** This diverse product line provides reagents to study apoptosis (programmed cell death) and to elucidate signal transduction pathways. Products include antibodies, phospho-specific antibodies, antibody protein arrays, active caspases, kinases, and phosphatases, and ELISA assays to quantitate and measure the activity of apoptotic and signaling molecules.

### Hematology Controls and Calibrators

Hematology controls and calibrators, manufactured and marketed by R&D Systems, are products composed of the various cellular components of blood which have been stabilized. Proper diagnosis of many illnesses requires a thorough and accurate analysis of a patient's blood cells, which is usually done with automated or semi-automated hematology instruments. Controls and calibrators produced by R&D Systems ensure that these instruments are performing accurately and reliably.

Blood is composed of plasma, the fluid portion of which is mainly water, and blood cells, which are suspended in the plasma. There are three basic types of blood cells: red cells, white cells and platelets. Hemoglobin in red cells transports oxygen from the lungs throughout the body. White cells defend the body against foreign invaders. Platelets serve as a "plug" to stem blood flow at the site of an injury by initiating a complex series of biochemical reactions that lead to the formation of a clot.

4

These fundamental blood components (red cells, white cells and platelets) differ widely in size and concentration. As noted above, hematology controls are used in automated and semi-automated cell counting analyzers to make sure these instruments are counting blood cells in patient samples accurately. One of the most frequently performed laboratory tests on a blood sample is a complete blood count or CBC. Doctors use this test in disease screening and diagnosis. More than one billion of these tests are done world-wide every year, the great majority with cell counting instruments. In most laboratories the CBC consists of the white cell count, the red cell count, the hemoglobin reading, and the hematocrit reading (the percent of red cells in a volume of whole blood after it has been centrifuged). Also included in a CBC test is the differential, which numbers and classifies the different types of white cells.

These and other characteristics or "parameters" of a blood sample can be measured by automated or semi-automated cell counters. The number of parameters measurable in a blood control product depends on the type and sophistication of the instrument for which the control is designed. Ordinarily, a hematology control is used once to several times a day to make sure the instrument is reading accurately. In addition, most instruments

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

need to be calibrated periodically. Hematology calibrators are similar to controls, but go through additional testing to ensure that the calibration values assigned are extremely accurate and can be used to calibrate the instrument.

R&D Systems offers a wide range of hematology controls and calibrators for both impedance and laser type cell counters. R&D Systems believes its products have improved stability and versatility and a longer shelf life than most of those of its competitors. Hematology control products are also supplied for use as proficiency testing materials by laboratory certifying authorities of a number of states and countries.

### Hematology Products

Whole Blood CBC Controls/Calibrators. R&D Systems currently produces controls and calibrators for the following major brands of analyzers: Abbott Diagnostics, Beckman Coulter, Bayer Technicon, ABX and Sysmex.

Linearity and Reportable Range Controls. These products provide a means of assessing the linearity of hematology analyzers for white blood cells, red blood cells, platelets and reticulocytes (immature red blood cells). Because hematology analyzers are single-point calibrated, these products allow users to determine and validate the reportable range of an instrument.

Whole Blood Reticulocyte Controls. These controls are designed for manual and automated counting of reticulocytes (immature red blood cells).

Whole Blood Flow Cytometry Controls. These products are controls for flow cytometry instruments. These instruments are used to identify and quantify white blood cells by their surface markers.

Whole Blood Glucose/Hemoglobin Control. This product is designed to monitor instruments which measure glucose and hemoglobin in whole blood.

Erythrocyte Sedimentation Rate Control. This product is designed to monitor erythrocyte (red blood cell) sedimentation rate tests.

Multi-Purpose Platelet Reference Controls. These products, Platelet-Trol(R) II and Platelet-Trol Extended, are designed for use by automated and semi-automated analyzers which monitor platelet levels.

### PRODUCTS UNDER DEVELOPMENT

R&D Systems is engaged in ongoing research and development in all of its major product lines: controls and calibrators (hematology) and cytokines, antibodies, assays and related products (biotechnology). The Company believes that its future success depends, to a large extent, on its ability to keep pace with changing technologies and markets. At the same time, the Company continues to examine its production processes to ensure high quality and maximum efficiency.

R&D Systems is planning to release new cytokines, antibodies and cytokine assay kits in the coming year. All of these products will be for research purposes only and therefore do not require FDA clearance. R&D Systems developed several new hematology control products in fiscal 2006 and is continuously working on product improvements and enhancements. However,

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

there is no assurance that any of the products in the research and development phase can be developed or, if developed, can be successfully introduced into the marketplace.

Included in consolidated research and development expense through fiscal 2004 were the Company's share of equity method losses by CCX and DGI and Hemerus, companies in which the Company has invested. The nature of these business relationships are discussed in the following section. Research and development expense was as follows (in thousands):

	Year Ended June 30,		
	2006	2005	2004
Biotechnology expenses	\$18,114	\$17,609	\$17,139
Hematology expenses	711	770	781
CCX losses	--	--	2,437
DGI losses	--	--	364
Hemerus losses	--	--	52
	\$18,825	\$18,379	\$20,773
Percent of revenue	9.3%	10.3%	12.9%

### BUSINESS RELATIONSHIPS

The Company has invested in the preferred stock and convertible debentures of ChemoCentryx, Inc. (CCX). CCX is a technology and drug development company working in the area of chemokines. Chemokines are cytokines which regulate the trafficking patterns of leukocytes, the effector cells of the human immune system. In conjunction with the investment and joint research efforts, the Company obtained exclusive worldwide research and diagnostic marketing rights to chemokine proteins, antibodies and receptors discovered or developed by CCX. Through April 2004, the Company held 26% of the outstanding stock of CCX and accounted for the investment under the equity method of accounting. In May and June, 2004, CCX obtained additional financing through the issuance of preferred stock. The financing included an additional \$5.1 million investment by the Company. After the financing, the Company held a 19.9% equity interest in CCX. The Company then evaluated the cost versus equity method of accounting for its investment in CCX and determined that it does not have the ability to exercise significant influence over the operating and financial policies of CCX and therefore, after April 2004, accounted for its investment on a cost basis. The Company's net investment in CCX was \$5.1 million at June 30, 2005. In April 2006, the Company made an additional \$9.0 million investment in CCX in the form of a 5% convertible note subject to the limitation that the Company's holdings in CCX not exceed 19.9% of the outstanding voting shares. In June 2006, \$4.3 million of the note was converted into CCX preferred stock. The Company's equity interest in CCX remained at 19.9% after the financing. The Company's net investment in CCX at June 30, 2006 was \$14.2 million, including a convertible note and accrued interest aggregating \$4.8 million. In August 2006, the convertible note and accrued interest were converted into shares of CCX preferred stock and the Company's equity interest in CCX decreased to 19.3%.

In January 2004, the Company purchased a 10% interest in Hemerus Medical, LLC (Hemerus) for \$3.0 million. In March 2006, the Company invested an additional \$750,000 in Hemerus, increasing its ownership percentage to 15%. Hemerus was

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

formed in March 2001 and has acquired and is developing technology for the separation of leukocytes from blood and blood components. Leukoreduced blood is important in blood transfusion. Hemerus owns two patents and has several patent applications pending and is currently pursuing FDA clearance to market its products in the U.S. In parallel with this investment, R&D Systems entered into a Joint Research Agreement with Hemerus. The research will involve joint projects to explore the use of Hemerus' filter technology to applications within R&D Systems' Hematology and Biotechnology Divisions. Such applications, if any, may have commercial potential in other laboratory environments. The Company accounts for its investment in Hemerus under the equity method of accounting, as it is a limited liability corporation. The Company's net investment in Hemerus was \$3.0 million and \$2.6 million at June 30, 2006 and 2005, respectively.

In fiscal 2002, the Company made an equity investment of \$3.0 million and entered into a research and license agreement with Discovery Genomics, Inc. (DGI) of Minneapolis, Minnesota. DGI held licenses from the University of Minnesota to develop technologies used for functional genomics and the discovery of drugable targets. The Company currently holds a 38% equity interest in DGI and warrants to acquire an additional 1.5 million shares at \$2.50 per share which expire in August 2008. The Company also received the rights to develop antibodies and immunoassay kits for proteins discovered by DGI and an exclusive, royalty-free license to sell such products in the research market. The Company's investment was accounted for under the equity method of accounting. During fiscal 2004, the Company determined that its investment in DGI was other than temporarily impaired and wrote off the remaining net investment of \$1.5 million.

Original Equipment Manufacturer (OEM) agreements represent the largest market for hematology controls and calibrators made by R&D Systems. In fiscal 2006, 2005 and 2004, OEM contracts accounted for \$5.8 million, \$6.8 million and \$7.7 million, respectively, or 3%, 4% and 5% of total consolidated net sales.

### GOVERNMENT REGULATION

All manufacturers of hematology controls and calibrators are regulated under the Federal Food, Drug and Cosmetic Act, as amended. All of R&D Systems' hematology control products are classified as "In Vitro Diagnostic Products" by the FDA. The entire hematology control manufacturing process, from receipt of raw materials to the monitoring of control products through their expiration date, is strictly regulated and documented. FDA inspectors make periodic site inspections of the R&D Systems' hematology control operations and facilities. Hematology control manufacturing must comply with Quality System Regulations (QSR) as set forth in the FDA's regulations governing medical devices.

Three of R&D Systems' immunoassay kits, EPO, TfR and Beta2-microglobulin, have FDA clearance to be sold for clinical diagnostic use. R&D Systems must comply with QSR for the manufacture of these kits. Biotechnology products manufactured in the United States and sold for use in the research market do not require FDA clearance.

Some of R&D Systems' research groups use small amounts of radioactive materials in the form of radioisotopes in their product development activities. Thus, R&D Systems is subject to regulation by the US Nuclear Regulatory Commission (NRC) and has been granted an NRC license due to expire in April 2007. The license is renewable annually. R&D Systems is also subject to regulation and inspection by the Department of Health of the State of Minnesota for its use of radioactive materials. It has been granted a certificate of registration, which is renewable annually, by the Minnesota Department of Health. The current certificate expires April 1, 2007. R&D



## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Systems has had no difficulties in renewing these licenses in prior years and has no reason to believe they will not be renewed in the future. If, however, the licenses were not renewed, it would have minimal effect on R&D Systems' business since there are other technologies the research groups could use to replace the use of radioisotopes.

7

### AVAILABILITY OF RAW MATERIALS

The primary raw material for the Company's hematology controls is whole blood. Human blood is purchased from commercial blood banks while porcine and bovine blood is purchased from nearby meat processing plants. After raw blood is received, it is separated into its components, processed and stabilized. Although the cost of human blood has increased owing largely to the requirement that it be tested for certain diseases, the higher cost of these materials has not had a serious adverse effect on the Company's business. R&D Systems does not perform its own testing as the supplier tests all human blood purchased. R&D Systems' Biotechnology Division develops and manufactures the majority of its cytokines from synthetic genes developed in-house, thus significantly reducing its reliance on outside resources. R&D Systems typically has several outside sources for all critical raw materials necessary for the manufacture of products.

### PATENTS AND TRADEMARKS

R&D Systems owns patent protection for certain hematology controls. R&D Systems may seek patent protection for new or existing products it manufactures. No assurance can be given that any such patent protection will be obtained. No assurance can be given that R&D Systems' products do not infringe upon patents or proprietary rights owned or claimed by others, particularly for genetically engineered products. R&D Systems has not conducted a patent infringement study for each of its products. See Item 3 Legal Proceedings below.

R&D Systems and R&D Europe have a number of licensing agreements with patent holders under which they have the non-exclusive right to patented technology or the non-exclusive right to manufacture and sell certain patented cytokine and cytokine related products to the research market. For fiscal 2006, 2005 and 2004, total royalties expensed under these licenses were approximately \$2.6 million, \$2.6 million and \$2.3 million, respectively.

R&D Systems has obtained federal trademark registration for certain of its hematology controls and biotechnology product groups. R&D Systems believes it has common law trademark rights to certain marks in addition to those which it has registered.

### SEASONALITY OF BUSINESS

Sales of products by R&D Systems and, particularly R&D Europe, historically experience a slowing of sales or of the rate of sales growth during the summer months. R&D Systems also usually experiences a slowing of sales during the Thanksgiving to New Year holiday period. The Company believes this slowing is a result of vacation schedules in Europe and Japan and of academic schedules in the United States.

### SIGNIFICANT CUSTOMERS

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

No single customer accounted for more than 10% of total revenues during fiscal 2006, 2005 or 2004.

### BACKLOG

There was no significant backlog of orders for the Company's products as of the date of this report or as of a comparable date for fiscal 2005. The majority of the Company's biotechnology products are shipped within one day of receipt of the customers' order. The majority of hematology products are shipped based on a preset, recurring schedule.

8

### COMPETITION

The worldwide market for cytokines and research diagnostic assay kits is being supplied by a number of biotechnology companies, including BD Biosciences, Invitrogen Corporation's BioSource Division, PeproTech, Inc., Sigma Chemical Co., Amersham Biosciences, Fisher Scientific, Millipore Corp. and EMD Biosciences, Inc. R&D Systems believes that it is the leading worldwide supplier of cytokine related products in the research marketplace. R&D Systems believes that the expanding line of its products, their recognized quality, and the growing demand for these rare and versatile proteins, antibodies and assay kits, will allow the Company to remain competitive in the growing biotechnology research and diagnostic market.

Competition is intense in the hematology control business. The first control products were developed in response to the rapid advances in electronic instrumentation used in hospital and clinical laboratories for blood cell counting. Historically, most of the instrument manufacturing companies made controls for use in their own instruments. With rapid expansion of the instrument market, however, a need for more versatile controls enabled non-instrument manufacturers to gain a foothold. Today the market is comprised of manufacturers of laboratory reagents, chemicals and coagulation products and independent control manufacturers in addition to instrument manufacturers. The principal hematology control competitors of R&D Systems' retail products are Beckman Coulter, Inc., Sysmex, Streck Laboratories, Abbott Diagnostics, Bio-Rad Laboratories and Bayer Technicon. R&D Systems believes it is the third largest supplier of hematology controls in the marketplace behind Beckman Coulter and Streck Laboratories.

### EMPLOYEES

Through its subsidiaries, Techne Corporation employed 577 full-time and 60 part-time employees as of June 30, 2006. R&D Systems had 523 full-time and 41 part-time employees as of June 30, 2006. R&D Europe had 48 full-time and 19 part-time employees as of June 30, 2006, including 9 full-time and 2 part-time at R&D Europe's sales subsidiary in Germany. BiosPacific had 6 full-time employees as of June 30, 2006. .

### ENVIRONMENT

Compliance with federal, state and local environmental protection laws in the United States, United Kingdom and Germany had no material effect on R&D Systems or R&D Europe in fiscal 2006.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

### GEOGRAPHIC AREA FINANCIAL INFORMATION

Following is financial information relating to geographic areas (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Net sales			
United States	\$118,780	\$102,239	\$ 94,559
Europe	57,021	53,780	47,004
Other areas	26,816	22,633	19,694
	-----	-----	-----
Total net sales	\$202,617	\$178,652	\$161,257
	=====	=====	=====

	As of June 30,		
	2006	2005	2004
	-----	-----	-----
Long-lived assets			
United States	\$102,383	\$102,984	\$ 97,229
Europe	814	723	752
	-----	-----	-----
Total long-lived assets	\$121,197	\$103,707	\$ 97,981
	=====	=====	=====

9

Net sales are attributed to countries based on the location of the customer/distributor. Long-lived assets are comprised of land, buildings and improvements, equipment, deposits on real estate, goodwill and intangible assets.

### INVESTOR INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Therefore, the Company files periodic reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements, and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Room 1580, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically.

Financial and other information about the Company is available on its internet site (<http://www.techne-corp.com>). The Company makes available on its internet site, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

### ITEM 1A. RISK FACTORS

### FORWARD-LOOKING STATEMENTS

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Statements in this Annual Report on Form 10-K, and elsewhere, that are forward-looking involve risks and uncertainties which may affect the Company's actual results of operations. Certain of these risks and uncertainties which have affected and, in the future, could affect the Company's actual results are discussed below. The Company undertakes no obligation to update or revise any forward-looking statements made due to new information or future events. Investors are cautioned not to place undue emphasis on these statements.

### RISK FACTORS

The following risk factors should be read carefully in connection with evaluation of the Company's business and any forward-looking statements made in this Annual Report on Form 10-K and elsewhere. Any of the following risks could materially adversely affect the Company's business, operating results and financial condition.

The Company's biotechnology products are sold primarily to research scientists at pharmaceutical and biotechnology companies and at university and government research institutions. Changes in spending on research by such companies and in funding of such universities and institutions by government, including the National Institutes of Health, affects the revenues and earnings of the Company. The Company carries essentially no backlog of orders and changes in the level of orders received and filled daily can cause fluctuations in quarterly net sales and earnings.

Approximately one quarter of the Company's net sales are made through its European subsidiary, R&D Systems Europe, which makes its sales in foreign currencies. The Company's net sales and earnings are, therefore, affected by fluctuations in currency exchange rates.

The biotechnology industry is subject to rapid and significant technological change. While the hematology controls industry historically has been less subject to rapid change, it too is evolving and is impacted significantly by changes in the automated testing equipment offered by instrument manufacturers. Competitors of the Company are numerous and include, among others, specialized biotechnology firms, medical laboratory instrument and equipment manufacturers and disposables suppliers, major pharmaceutical companies, universities and other research institutions. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that are more effective than any which have been or are being developed by the Company or that would render the Company's technologies and products obsolete or noncompetitive.

10

The Company's success will depend, in part, on its ability to obtain licenses and patents, maintain trade secret protection and operate without infringing the proprietary rights of others. The Company has obtained and is negotiating licenses to produce a number of cytokines and related products claimed to be owned by others. Since the Company has not conducted a patent infringement study for each of its products, it is possible that products of the Company may unintentionally infringe patents of third parties or that the Company may have to alter its products or processes, pay licensing fees or cease certain activities because of patent rights of third parties, thereby causing additional unexpected costs and delays which may have a material adverse effect on the Company.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

The Company's expansion strategies, which include internal development of new products, collaborations, investments in joint ventures and companies developing new products related to the Company's business, and the acquisition of companies for new products and additional customer base, carry risks that objectives will not be achieved and future earnings will be adversely affected. Under the equity method of accounting, a percentage of the losses of certain companies in which the Company invests will be reported as losses of the Company. The Company may not have control of the expense levels of such companies and their losses may be greater than those anticipated by the Company. Additionally, if the Company determines that its investment in such companies is "other than temporarily" impaired, the Company may write off its entire investment in such company.

Ongoing research and development activities and the production and marketing of certain of the Company's products are subject to regulation by numerous governmental authorities in the United States and other countries. The approval process applicable to clinical diagnostic products of the type that may be developed by the Company may take a year or more. Delays in obtaining approvals could adversely affect the marketing of new products developed by the Company.

Recruiting and retaining qualified scientific and production personnel to perform research and development work and product manufacturing are critical to the Company's success. The Company's anticipated growth and its expected expansion into areas and activities requiring additional expertise will require the addition of new personnel and the development of additional expertise by existing personnel. The failure to attract and retain such personnel could adversely affect the Company's business.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments as of the date of this report.

### ITEM 2. PROPERTIES

The Company owns the facilities its R&D Systems subsidiary occupies in Minneapolis, Minnesota. The R&D Systems complex currently includes 365,000 square feet of administrative, research and manufacturing space in three adjoining buildings.

In fiscal 2002, the Company purchased property adjacent to its Minneapolis facility. The Company has renovated this property and is currently leasing or plans to lease approximately 70% of the 176,000 square foot building as retail and office space and use the remainder as warehouse and storage space. The Company has constructed a link to connect this building to its current facility. The Company has begun finishing the 78,000 square foot link, to be used primarily for laboratory space, in fiscal 2006 and expects to complete the space in the second quarter of fiscal 2007.

In fiscal 2005, the Company acquired additional property adjacent to its Minneapolis facility. A portion of the property is currently leased to third parties and the Company plans to continue to lease out the building until the space is needed for its own operations.

In fiscal 2003, the Company purchased approximately 649 acres of farmland, including buildings, in southeast Minnesota. A portion of the land and buildings are being leased to third parties as cropland and for a dairy operation. The remaining property is used by the Company to house goats and sheep for polyclonal antibody production.

Rental income from the above properties was \$1.3 million, \$750,000 and \$131,000 in fiscal 2006, 2005 and 2004, respectively.

R&D Europe leases a building of approximately 17,000 square feet in Abingdon, England. Base rent was \$453,000 in fiscal 2006.

R&D GmbH leases approximately 2,300 square feet in a multi-tenant office building in Wiesbaden-Nordenstadt, Germany. Base rent was \$40,000 in fiscal 2006.

BiosPacific leases approximately 3,500 square feet in a multi-tenant office building in Emeryville, California. Base rent was \$42,000 in fiscal 2006.

During fiscal 2006, the Company paid \$114,000 rent on a 6,600 square foot building in Morrisville, North Carolina that had housed the operations of Fortron. These operations were transferred to Minneapolis in the first quarter of fiscal 2006. This lease agreement expires on October 31, 2007.

The Company believes the owned and leased property discussed above, are adequate to meet its occupancy needs in the foreseeable future.

### ITEM 3. LEGAL PROCEEDINGS

On June 29, 2006, Streck Laboratories, Inc. filed a Complaint against the Company and its subsidiary, Research and Diagnostic Systems, Inc. (R&D), in the United States District Court for the District of Nebraska. The Complaint alleges patent infringement involving certain patents issued to Streck relating to the addition of reticulocytes to hematology controls. The Company has reason to believe that an R&D employee, and not Streck employees, first invented the inventions claimed in these patents and several other patents issued to Streck. R&D is seeking to have an interference declared by the U.S. Patent and Trademark Office to determine priority of invention between a patent application filed by R&D and the Streck patents, including each of the patents involved in the lawsuit.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's security holders during the fourth quarter of the Company's 2006 fiscal year.

### EXECUTIVE OFFICERS OF THE COMPANY

(a) The names, ages and positions of each executive officer of the Company are as follows:

Name	Age	Position	Officer Since
-----	---	-----	-----
Thomas E. Oland	65	Chairman of the Board, President, Treasurer, Chief Executive and Director	1985
Dr. Monica Tsang	61	Vice President, Research	1995
Marcel Veronneau	52	Vice President, Hematology Operations	1995

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Gregory J. Melsen    54    Vice President of Finance and    2004  
Chief Financial Officer

The term of office of each executive officer is from one annual meeting of directors until the next annual meeting of directors or until a successor is elected. There are no arrangements or understandings among any of the executive officers and any other person (not an officer or director acting as such) pursuant to which any of the executive officers was selected as an officer of the Company.

12

(b) The business experience of the executive officers during the past five years is as follows:

Thomas E. Oland has been Chairman of the Board, President, Treasurer and Chief Executive Officer of the Company since December 1985. Mr. Oland also served as Chief Financial Officer of the Company from December 1985 to December 2004.

Dr. Monica Tsang was elected a Vice President of the Company in March 1995. Prior thereto, she served as Executive Director of Cell Biology for R&D Systems' Biotechnology Division and has been an employee of R&D Systems since 1985.

Marcel Veronneau was elected a Vice President of the Company in March 1995. Prior thereto, he served as Director of Operations for R&D Systems' Hematology Division since joining the Company in 1993.

Gregory J. Melsen joined the Company in December 2004 as Vice President of Finance and Chief Financial Officer. From 2002 to 2004, he served as Vice President and Chief Financial Officer of PLATO Learning, Inc., a publicly held provider of computer-based and e-learning educational software. From 1999 to 2001, he held the position of Vice President of Finance, Treasurer and Chief Financial Officer of American Medical Systems Holdings, Inc., a publicly traded medical device manufacturer. Previously, Mr. Melsen was employed by a public accounting firm for nineteen years, including nine as an audit partner.

## PART II

### ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock trades on The Nasdaq National Market under the symbol "TECH." The following table sets forth for the periods indicated the range of the closing price per share for the Company as reported by the Nasdaq Stock Market.

	Fiscal 2006 Price		Fiscal 2005 Price	
	High	Low	High	Low
1st Quarter	\$57.94	\$46.40	\$43.11	\$36.01
2nd Quarter	58.45	52.38	40.09	34.96
3rd Quarter	60.14	56.51	41.54	33.11
4th Quarter	59.68	49.37	47.25	39.70

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

As of August 25, 2006, there were approximately 250 shareholders of record. As of August 25, 2005, there were over 25,000 beneficial shareholders of the Company's common stock. TECHNE Corporation has never paid cash dividends on its common stock. Payment of dividends is within the discretion of TECHNE's Board of Directors, although the Board of Directors plans to retain earnings for the foreseeable future.

The following table sets forth the repurchases of Company Common Stock for the quarter ended June 30, 2006.

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
4/1/06-4/30/06	0	--	0	\$6.8 million
5/1/06-5/31/06	0	--	0	\$6.8 million
6/1/06-6/30/06	0	--	0	\$6.8 million

In May 1995, the Company announced a plan to purchase and retire its Common Stock. Repurchases of \$40 million were authorized as follows: May 1995-\$5 million; April 1997-\$5 million; January 2001-\$10 million; October 2002-\$20 million. The plan does not have an expiration date.

13

### ITEM 6. SELECTED FINANCIAL DATA (Dollars in thousands, except per share data)

Net Sales, Earnings and Cash Flow Data For the Years Ended June 30,	2006(1)	2005	2004	2003	2002(2)
Net sales	\$202,617	\$178,652	\$161,257	\$145,011	\$130,900
Gross margin (3)	156,899	141,839	126,370	109,615	89,393
Selling, general and administrative expenses (3)	27,604	24,476	21,725	19,377	19,799
Research and development expenses (3)	18,825	18,379	20,773	20,581	17,470
Operating income (3)	108,503	97,763	82,273	67,718	35,074
Earnings before income taxes (3)	111,163	99,887	82,541	69,555	37,736
Net earnings (3)	73,351	66,132	52,928	45,396	21,130
Return on average equity	24.1%	23.4%	19.8%	20.5%	14.1%
Return on average assets	22.0%	21.3%	18.0%	18.1%	12.0%
Diluted earnings per share	\$ 1.85	\$ 1.62	\$ 1.27	\$ 1.08	\$ 0.64
Capital expenditures	4,603	11,410	3,710	15,194	22,276
Depreciation and amortization (4)	6,955	6,108	6,040	6,353	12,688
Interest expense	964	822	678	974	1,320
Net cash provided by operating activities	85,589	74,443	65,553	55,238	27,667

Balance Sheet, Common Stock



## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

and Employee Data as of June 30,	2006(1)	2005	2004	2003	2002(2)
Cash, cash equivalents and short-term available-for- sale investments	\$108,846	\$ 97,134	\$ 93,735	\$118,763	\$ 97,064
Receivables	25,078	23,722	21,099	19,179	19,414
Inventories	9,024	7,758	7,457	6,332	6,077
Working capital	131,856	120,965	114,606	138,707	114,448
Total assets	370,512	295,263	325,460	263,277	238,247
Long-term debt, less current portion	12,198	13,378	14,576	15,852	17,101
Stockholders' equity	340,348	267,869	297,425	236,617	206,517
Average common and common equivalent shares (in thousands)	39,594	40,920	41,697	42,031	42,523
Book value per share (5)	\$ 8.64	\$ 6.93	\$ 7.23	\$ 5.78	\$ 4.97
Share price:					
High	60.14	47.25	43.45	34.75	37.05
Low	46.40	33.11	28.11	18.95	25.30
Price to earnings ratio (6)	28	28	34	28	44
Current ratio	8.34	9.63	9.52	13.86	8.82
Quick ratio	7.45	8.62	8.53	12.76	7.96
Full-time employees	577	538	534	525	509

- (1) The Company acquired Fortron Bio Science, Inc. and BiosPacific, Inc. on July 1, 2005.
- (2) Fiscal 2002 results include a \$17.5 million before tax charge (\$11.4 million after tax and \$.27 diluted earnings per share) for settlement of litigation with Amgen Inc.
- (3) As a percent of net sales.
- (4) The fiscal 2003 decrease in depreciation and amortization was primarily the result of adoption of Statement of Financial Accounting Standards No. 142, which required the cessation of goodwill amortization.
- (5) Total stockholders' equity divided by total shares outstanding at June 30.
- (6) Common share price at end of fiscal year (June 30) divided by the diluted earnings per share for the respective fiscal year.

14

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

TECHNE Corporation (the Company) has two operating subsidiaries: Research and Diagnostic Systems, Inc. (R&D Systems) and R&D Systems Europe Ltd. (R&D Europe). R&D Systems, located in Minneapolis, Minnesota, has two operating segments: its Biotechnology Division and its Hematology Division. The Biotechnology Division develops and manufactures purified cytokines (proteins), antibodies and assay kits which are sold to biomedical researchers and clinical research laboratories. The Hematology Division develops and manufactures whole blood hematology controls and calibrators which are sold to hospitals and clinical laboratories to check the performance of hematology instruments to assure the accuracy of hematology test results. R&D Europe, located in Abingdon, England, is the European distributor of R&D Systems' biotechnology products. R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

R&D Systems acquired two subsidiaries effective July 1, 2005. Fortron Bio Science, Inc. (Fortron), a developer and manufacturer of monoclonal and polyclonal antibodies, antigens and other biological reagents. Fortron was relocated to the Company's Minneapolis facility in the first quarter of fiscal 2006. BiosPacific, Inc. (BiosPacific), located in Emeryville, California, is a worldwide supplier of biologics to manufacturers of in vitro diagnostic systems (IVDs) and immunodiagnostic kits. BiosPacific is the primary distributor of Fortron products. Fortron and BiosPacific had shared a unique strategic relationship since 1992 that combined Fortron's development and manufacturing excellence with BiosPacific's marketing and sales expertise. Both acquired subsidiaries are considered part of the Company's biotechnology operating segment.

### Overall Results

Consolidated net earnings increased 10.9% for fiscal 2006 as compared to fiscal 2005. Increased consolidated net sales was the primary reason for the improvement. Consolidated net sales increased 13.4% from fiscal 2005. The acquisitions of Fortron and BiosPacific on July 1, 2005 increased consolidated net sales and consolidated net earnings by approximately \$9.4 million (5.2%) and \$515,000 (0.8%), respectively, for fiscal 2006. Consolidated gross margins decreased from 79.4% in fiscal 2005 to 77.4% in fiscal 2006 due to purchase accounting related to inventory acquired from Fortron and BiosPacific. The unfavorable impact on consolidated net earnings of the change from the prior year in exchange rates used to convert R&D Europe results from British pound sterling to U.S. dollars was \$659,000 (1.0%) for the year ended June 30, 2006.

Consolidated net earnings increased 24.9% for fiscal 2005 as compared to fiscal 2004. Increased consolidated net sales was the primary reason for the improvement. Net sales increased 10.8% from fiscal 2004. A lower effective income tax rate, reduced losses and write-offs from equity investments and increased gross margins from 78.4% to 79.4% also contributed to the improvement in net earnings. The favorable impact on consolidated net earnings of the change from the prior year in exchange rates used to convert R&D Europe results was \$868,000 (1.6%) for the year ended June 30, 2005.

### Results of Operations

Net sales (in thousands):

	Year Ended June 30,		
	2006	2005	2004
Biotechnology	\$134,424	\$111,153	\$ 99,382
R&D Systems Europe	52,954	51,315	44,397
Hematology	15,239	16,184	17,478
	-----	-----	-----
	\$202,617	\$178,652	\$161,257
	=====	=====	=====

Net sales for fiscal 2006 were \$202.6 million, an increase of \$23.9 million (13.4%) from fiscal 2005. Biotechnology net sales in fiscal 2006 increased \$23.3 million (20.9%) from fiscal 2005. Net sales by Fortron and BiosPacific, which are included in this segment, accounted for \$9.4 million of the biotechnology net sales increase for fiscal 2006. Approximately \$1.3 million of the increase in biotechnology net sales for fiscal 2006 was the result of price increases. The majority of the remainder of the biotechnology net sales increase was from increased Biotechnology Division U.S. retail sales volume. Sales to pharmaceutical/biotechnology customers and academic customers, the two largest segments of the U.S. market showed the greatest

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

revenue growth over fiscal 2005.

15

R&D Europe net sales increased \$1.6 million (3.2%) in fiscal 2006. R&D Europe's net sales in British pound sterling increased 7.8% in fiscal 2006. The decrease in Hematology Division net sales in fiscal 2006 was the result of the reduction in sales to one OEM customer beginning in January 2005. Sales to this customer were \$33,000 and \$1.6 million in fiscal 2006 and 2005, respectively.

Net sales for fiscal 2005 were \$178.7 million, an increase of \$17.4 million (10.8%) from fiscal 2004. Biotechnology net sales for fiscal 2005 increased \$11.8 million (11.8%) from fiscal 2004, the majority of which (\$9.7 million) was from increased U.S. retail sales volume. R&D Europe net sales in fiscal 2005 increased \$6.9 million (15.6%). The effect of changes from the prior year in foreign currency exchange rates used to convert R&D Europe net sales from British pound sterling to U.S. dollars increased R&D Europe net sales by \$3.0 million in fiscal 2005. R&D Europe's net sales in British pounds increased 8.9% in fiscal 2005. The decrease in Hematology Division net sales in fiscal 2005 was the result of the reduction in sales to one OEM customer beginning in January 2005. Sales to this customer were \$1.6 million and \$3.0 million in fiscal 2005 and 2004, respectively.

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

	Year Ended June 30,		
2006	2005	2004	
		-----	-----
Biotechnology	78.3%	80.7%	80.4%
R&D Systems Europe	50.0%	53.2%	51.4%
Hematology	43.6%	46.5%	46.2%
Consolidated	77.4%	79.4%	78.4%

The consolidated gross margin percentage for fiscal 2006 was negatively impacted 2.1% by the inclusion of Fortron and BiosPacific gross margins. The gross margin percentage for Fortron and BiosPacific, which was negatively affected by purchase accounting related to inventory acquired, was 34.4% for fiscal 2006. Under purchase accounting, inventory acquired is valued at fair market value less expected selling and marketing costs. As of the date of acquisition, the value of the acquired inventory was increased \$2.1 million. Included in Fortron and BiosPacific cost of sales for fiscal 2006 was approximately \$1.7 million related to the write up of acquired inventory, representing a 17.8% reduction in Fortron and BiosPacific gross margin percentage for fiscal 2006. The remaining inventory valuation adjustment of \$456,000 is expected to be expensed as the acquired inventory is sold over approximately the next six months. The decrease in R&D Europe's gross margin in fiscal 2006 was mainly the result of unfavorable exchange rates between a stronger U.S. dollar and weaker British pound sterling. The decrease in hematology gross margin was the result of lower sales volume to offset fixed manufacturing costs.

The increase in consolidated gross margin percentage in fiscal 2005 was mainly the result of R&D Europe's gross margin increasing from 51.4% in fiscal 2004 to 53.2% as a result of favorable exchange rates between a weaker U.S. dollar and stronger British pound sterling.

Selling, general and administrative expenses increased \$3.1 million (12.8%) and \$2.8 million (12.7%) in fiscal 2006 and 2005, respectively. Selling, general and administrative expenses were as follows (in thousands):

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Year Ended June 30,

	2006	2005	2004
	-----	-----	-----
Biotechnology	\$15,442	\$13,517	\$11,761
R&D Systems Europe	7,784	7,866	7,194
Hematology	1,625	1,808	1,697
Corporate	2,753	1,285	1,073
	-----	-----	-----
	\$27,604	\$24,476	\$21,725
	=====	=====	=====

Biotechnology selling, general and administrative expenses increased \$1.9 million (14.2%) in fiscal 2006. The majority of the increase was due to Fortron and BiosPacific, which had \$1.3 million of selling, general and administrative expenses in fiscal 2006. Also, included in corporate selling, general and administrative expenses was \$1.6 million of stock option expense from the adoption of Statement of Financial Accounting Standards (SFAS) No. 123R in fiscal 2006.

The increase in biotechnology selling, general and administrative expenses in fiscal 2005 of \$1.8 million was the result of increased profit sharing and stock bonus expense of \$742,000, increased personnel costs related to annual wage increases and additional sales and marketing personnel of \$326,000 and increased advertising, promotion and web-site design consulting of \$152,000. R&D Europe's selling, general and administrative expenses increased \$672,000 (9.3%) in fiscal 2005. The majority of the increase was the result of the exchange rate to convert expenses from British pound sterling to U.S. dollars. In British pound sterling, R&D Europe's selling, general and administrative expenses increased 3.0% in fiscal 2005.

16

Research and development expenses increased \$446,000 in fiscal 2006 and decreased \$2.4 million in fiscal 2005. Included in research and development expenses in fiscal 2004 are the Company's share of losses in equity method investments. Research and development expenses are composed of the following (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Biotechnology	\$18,114	\$17,609	\$17,139
Hematology	711	770	781
ChemoCentryx, Inc. losses	--	--	2,437
Discovery Genomics, Inc. losses	--	--	364
Hemerus Medical, LLC losses	--	--	52
	-----	-----	-----
	\$18,825	\$18,379	\$20,773
	=====	=====	=====

In May 2004, the Company changed from the equity method to the cost method of accounting for its investment in ChemoCentryx, Inc. (CCX) and no longer records its share of CCX losses in its consolidated results. The change to the cost method of accounting for CCX was the result of the Company's ownership percentage declining below 20% and qualitative factors which indicated that the Company does not exercise significant influence over the operations of CCX. The Company's net investment in CCX at June 30, 2005 was \$5.1 million. In April 2006, the Company made an additional \$9 million investment in CCX in the form of a 5% convertible note subject to the limitation that the Company's holdings in CCX not exceed 19.9% of the outstanding voting shares. In June 2006, \$4.3 million of the note was

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

converted into shares of CCX preferred stock. The Company's equity interest in CCX remained at 19.9%. The Company's net investment in CCX at June 30, 2006 was \$14.2 million, including the remaining convertible note and accrued interest. As a development stage company, CCX is dependent on its ability to raise additional funds to continue its research and development efforts. If such funding were unavailable or inadequate to fund operations, the Company would potentially recognize an impairment loss to the extent of its remaining net investment.

During the fourth quarter of fiscal 2004, the Company determined that its investment in Discovery Genomics, Inc. (DGI) was other than temporarily impaired and wrote off the remaining net investment of \$1.5 million as an impairment loss.

Beginning in fiscal 2005, the Company's share of Hemerus losses are included in other non-operating expenses since Hemerus began selling product and was no longer considered a development stage company.

Excluding CCX, DGI and Hemerus losses, research and development expenses by the Company increased \$446,000 and \$459,000 in fiscal 2006 and 2005, respectively. These increases were primarily the result of the development of new cytokines, antibodies and assay kits by R&D Systems' Biotechnology Division.

Amortization of intangible assets. The Company allocated approximately \$12.8 million to goodwill and \$7.1 million to other intangible assets arising from the acquisitions of Fortron and BiosPacific. The other intangible assets, mainly technologies, trade names and customer and supplier relationships, are being amortized over lives of one to eight years and amortization expense of approximately \$1.1 million was recorded in fiscal 2006 related to these assets.

Other non-operating expense (income) consists of foreign currency transaction gains, rental income, building expenses related to properties not used in operations and the Company's fiscal 2006 and 2005 share of equity in losses by Hemerus as follows (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Foreign currency gains	\$ (30)	\$ (94)	\$ (64)
Rental income	(1,286)	(750)	(131)
Real estate taxes, depreciation and utilities	1,982	1,701	977
Hemerus Medical, LLC losses	418	306	--
	-----	-----	-----
	\$ 1,084	\$ 1,163	\$ 782
	=====	=====	=====

17

The Company's net investment in Hemerus at June 30, 2005 was \$2.6 million. In fiscal 2006, the Company invested an additional \$750,000 in Hemerus, increasing its ownership percentage from 10% to 15%. The Company's net investment in Hemerus at June 30, 2006 was \$3.0 million. Hemerus' success is dependent in part, upon receiving FDA clearance to market its products. If such clearance is not received, the Company would potentially recognize an impairment loss to the extent of its remaining net investment.

Income taxes for fiscal 2006, 2005 and 2004 were provided at rates of approximately 34.0%, 33.8% and 35.9%, respectively, of consolidated earnings

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

before income taxes. U.S. federal taxes have been reduced by the credit for research and development expenditures through December 2005, the benefit for extraterritorial income and, in fiscal 2006, the manufacturer's deduction provided for under the American Jobs Creation Act of 2004. Foreign income taxes have been provided at rates which approximate the tax rates in the countries in which R&D Europe operates. Without significant business developments, the Company expects income tax rates for fiscal 2007 to range from 34% to 35%.

### QUARTERLY FINANCIAL INFORMATION (Unaudited) (in thousands, except per share data)

	Fiscal 2006				Fiscal 2005			
	First Qtr.	Second Qtr.	Third Qtr.	Fourth Qtr.	First Qtr.	Second Qtr.	Third Qtr.	Fourth Qtr.
Net sales	\$47,709	\$48,029	\$54,813	\$52,066	\$40,919	\$42,247	\$47,935	\$47,551
Gross margin	36,613	37,334	42,708	40,244	32,032	33,306	38,797	37,704
Earnings								
before taxes	25,490	24,899	31,162	29,612	21,747	22,686	27,904	27,550
Income taxes	8,489	8,385	10,815	10,123	7,555	7,752	9,465	8,983
Net earnings	17,001	16,514	20,347	19,489	14,192	14,934	18,439	18,567
Basic earnings								
per share	0.44	0.42	0.52	0.50	0.34	0.36	0.46	0.48
Diluted earnings								
per share	0.43	0.42	0.52	0.49	0.34	0.36	0.45	0.47

### Liquidity and Capital Resources

Cash, cash equivalents and available-for-sale investments at June 30, 2006 were \$186.5 million compared to \$139.3 million at June 30, 2005. At June 30, 2004, cash, cash equivalents and available-for-sale investments were \$176.6 million. The Company has an unsecured line of credit of \$750,000 available at June 30, 2006. The line of credit expires on October 31, 2006. The interest rate charged on the line of credit is a floating rate at the one month London interbank offered rate (Libor) plus 1.75%. There were no borrowings on the line in the current or prior fiscal year.

Management of the Company expects to be able to meet its foreseeable future cash and working capital requirements for operations, debt repayment, facility expansion and capital additions through currently available funds, cash generated from operations and maturities of available-for-sale investments.

Cash flows from operating activities. The Company generated cash from operations of \$85.6 million, \$74.4 million and \$65.6 million in fiscal 2006, 2005 and 2004, respectively. The increase in cash generated from operating activities in fiscal 2006 was the result of increased net earnings of \$7.2 million and an increase in income taxes payable net of the excess tax benefit from stock option exercises in fiscal 2006 of \$3.1 million compared to an increase in fiscal 2005 of \$307,000. The increase in income taxes payable in fiscal 2006 was the result of lower U.S. federal and state income tax deposits.

The increase in cash generated from operating activities in fiscal 2005 of \$8.8 million was the result of a net earnings increase of \$13.2 million partially offset by a smaller increase in income taxes payable. Excluding the losses by equity method investments and the impairment loss in fiscal 2004, which do not affect cash balances, net earnings in fiscal 2005 increased \$8.8 million from fiscal 2004. For the year ended June 30, 2005, income taxes payable increased \$307,000 compared to \$3.3 million for the year ended

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

June 30, 2004. The difference was mainly the result of increased tax payments made in fiscal 2005.

Cash flows from investing activities. Capital additions consist of the following (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Laboratory, manufacturing, and computer equipment	\$ 2,225	\$ 1,712	\$ 1,127
Renovation/construction (Minneapolis)	2,233	555	253
Construction (southeast Minnesota)	145	793	2,330
Property purchase (Minneapolis)	--	8,350	--
	-----	-----	-----
	\$ 4,603	\$11,410	\$ 3,710
	=====	=====	=====

In fiscal 2006, the Company began construction of additional laboratory space at its Minneapolis facility. Included in fiscal 2006 capital additions is approximately \$1.5 million related to this construction. The remaining construction cost is estimated at \$8.0 million and is expected to be complete in the second quarter of fiscal 2007. All construction is expected to be financed through currently available funds and cash generated from operating activities. The Company acquired property in southeast Minnesota in fiscal 2003 and has constructed additional facilities at this site in fiscal 2004 through 2006 to house goats and sheep used in the production of its antibodies. In fiscal 2005, the Company acquired property adjacent to its Minneapolis facility for \$10.4 million. Two million of the purchase price had been deposited in escrow in fiscal 2002. The land and building purchases and construction were all financed through cash on hand, cash generated from operations and maturities of short-term available-for-sale investments.

18

Capital additions for laboratory, manufacturing and computer equipment planned for fiscal 2007 are expected to be approximately \$4.7 million and are expected to be financed through currently available cash and cash generated from operations.

The Company's net purchases of (proceeds from) available-for-sale investments in fiscal 2006, 2005 and 2004 was \$36.8 million, (\$65.1) million, and \$47.7 million, respectively. The Company's investment policy is to place excess cash in municipal and corporate bonds with the objective of obtaining the highest possible return with the lowest risk, while keeping funds accessible.

As discussed previously, the Company acquired Fortron and BiosPacific effective July 1, 2005 for an aggregate purchase price of \$20 million. Cash acquired in the transactions was \$413,000. The net acquisition cost of \$19.6 million was financed through cash and equivalents on hand at July 1, 2005.

In fiscal 2004, the Company purchased a 10% interest in Hemerus Medical, LLC (Hemerus) for \$3 million. In fiscal 2006, the Company invested an additional \$750,000 in Hemerus, increasing its ownership percentage from 10% to 15%.

In fiscal 2004, the Company made additional investments totaling \$5.1 million in ChemoCentryx, Inc. (CCX), a technology and drug development

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

company. The Company's net investment in CCX was \$5.1 million at June 30, 2005. In April 2006, the Company made an additional \$9 million investment in CCX in the form of a 5% convertible note subject to the limitation that the Company's holdings in CCX not exceed 19.9% of the outstanding voting shares. In June 2006, \$4.3 million of the note was converted into shares of CCX preferred stock. The Company's equity interest in CCX remained at 19.9%. The Company's net investment in CCX at June 30, 2006 was \$14.2 million, including a convertible note and accrued interest aggregating \$4.8 million. In August 2006, the convertible note and accrued interest were converted into shares of CCX preferred stock and the Company's equity interest in CCX decreased to 19.3%.

Cash flows from financing activities. The Company received \$12.5 million, \$6.6 million and \$4.1 million for the exercise of options for 739,000, 252,000 and 241,000 shares of common stock in fiscal 2006, 2005 and 2004, respectively. The Company also received \$1.4 million for the exercise of warrants to purchase 120,000 shares of common stock in fiscal 2005. The Company recognized an excess tax benefit from stock option exercises of \$8.0 million in fiscal 2006.

In fiscal 2006 and 2005, the Company purchased 22,541 and 6,410 shares of common stock, respectively, for its employee Stock Bonus Plans at a cost of \$1.3 million and \$260,000, respectively.

In March 2005, the Company repurchased approximately 2.9 million shares of its common stock under an accelerated stock buyback ("ASB") transaction for an initial value of approximately \$100 million (\$34.45 per share). The repurchase of the shares was funded with a portion of the Company's cash and available-for-sale investments. The ASB agreement was subject to a market price adjustment provision based upon the volume weighted average price during the nine-month period ending in December 2005. In December 2005, the Company settled the ASB agreement with a payment of \$26.0 million using cash and equivalents on hand as of the settlement date.

The Company has never paid cash dividends and currently has no plans to do so in fiscal 2007.

### Contractual Obligations

The following table summarizes the Company's contractual obligations and commercial commitments as of June 30, 2006 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$13,427	\$ 1,229	\$ 2,758	\$ 3,218	\$ 6,222
Operating leases	5,454	797	1,298	1,094	2,265
Minimum royalty payments	119	119	--	--	--
	\$19,000	\$ 2,145	\$ 4,056	\$ 4,312	\$ 8,487

The above long-term debt obligations exclude interest payments, which are at a floating rate.

### Off-balance Sheet Arrangements



## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

The Company is not a party to any off-balance sheet transactions, arrangements or obligations that have, or are reasonably likely to have, a material effect on the Company's financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Critical Accounting Policies

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company has identified the policies outlined below as critical to its business operations and an understanding of results of operations. The listing is not intended to be a comprehensive list of all accounting policies.

Valuation of accounts receivable. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customers' current creditworthiness, as determined by management's review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's established provisions, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Gross trade receivables totaled \$23.9 million and the allowance for doubtful accounts was \$120,000 at June 30, 2006.

Valuation of inventory. Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company regularly reviews inventory on hand for slow-moving and obsolete inventory, inventory not meeting quality control standards and inventory subject to expiration.

To meet strict customer quality standards, the Company has established a highly controlled manufacturing process for proteins and antibodies. New protein and antibody products require the initial manufacture of multiple batches to determine if quality standards can be consistently met. In addition, the Company will produce larger batches of established products than current sales requirements due to economies of scale. The manufacturing process for proteins and antibodies, therefore, has and will continue to produce quantities in excess of forecasted usage. The Company values its manufactured protein and antibody inventory based on a two-year forecast. Protein and antibody quantities in excess of the two-year usage forecast are considered impaired and not included in the inventory value. Through March 31, 2006, due to changes in the Company's forecast, reserves for previously written off inventories may have been reversed in subsequent periods. Inventory reserves reversed through March 31, 2006 were not material to the Company's consolidated results of operations, consolidated financial

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

position, assets or stockholders' equity as of and for each of the periods presented. Subsequent to March 31, 2006, the Company changed its policy and no longer writes up previously unvalued inventories. This change in valuation method did not have a material impact on the Company's fiscal 2006 consolidated financial statements. The value of protein and antibody inventory reserved at June 30, 2006 was \$11.7 million.

20

Valuation of goodwill. The Company is required to perform an annual review for impairment of goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Goodwill is considered to be impaired if it is determined that the carrying value of the reporting unit exceeds its fair value. Assessing the impairment of goodwill requires the Company to make judgments regarding the fair value of the net assets of its reporting units and the allocation of the carrying value of shared assets to the reporting units. The Company's annual assessment included comparison of the carrying value of the net assets of the Company's biotechnology operations to its share of the Company's market capitalization at June 30, 2006. A significant change in the Company's market capitalization or in the carrying value of net assets of the biotechnology operations could result in an impairment charge in future periods. Goodwill at June 30, 2006 was \$25.3 million.

Valuation of intangible and other long-lived assets. The Company periodically assesses the impairment of intangible and other long-lived assets, which requires it to make assumptions and judgments regarding the fair value of these asset groups. Asset groups are considered to be impaired if their carrying value exceeds the asset groups' ability to continue to generate income from operations and positive cash flow in future periods. If asset groups are considered impaired, the amount by which the carrying value exceeds its fair value would be written off as an impairment loss. Intangible assets and other long-lived assets at June 30, 2006, were \$6.7 million and \$404,000, respectively.

Valuation of investments. The Company has made equity investments in several start-up and early development stage companies, among them CCX, DGI and Hemerus. The accounting treatment of each investment (cost method or equity method) is dependent upon a number of factors, including, but not limited to, the Company's share in the equity of the investee and the Company's ability to exercise significant influence over the operating and financial policies of the investee. In determining which accounting treatment to apply, the Company must make judgments based upon the quantitative and qualitative aspects of the investment.

The Company periodically assesses its equity investments for impairment. Development stage companies, of the type the Company has invested in, are dependent on their ability to raise additional funds to continue research and development efforts and on receiving patent protection and/or FDA clearance to market their products. If such funding were unavailable or inadequate to fund operations or if patent protection or FDA clearance were not received, the Company would potentially recognize an impairment loss to the extent of its remaining net investment. The Company's net investments at June 30, 2006 in CCX and Hemerus were \$14.2 million and \$3.0 million, respectively. During fiscal 2004, the Company determined that its investment in DGI was other than temporarily impaired and wrote off the remaining net investment of \$1.5 million.

Share-based compensation. The Company adopted Statement of Accounting Standards (SFAS) No. 123R, Share-Based Payment, as of July 1, 2005. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

employee services through stock-based payment transactions. The Statement requires the measurement of the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. The Company uses the Black-Scholes model to value stock option awards. The assumptions used in calculating the fair value of stock-based payment awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and different assumptions are used, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected term and forfeiture rate, and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from the estimate, stock-based compensation expense could be significantly different from what has been recorded in the current period. As of June 30, 2006, the Company had outstanding stock options for 421,000 shares of common stock. Of those outstanding common stock options, 382,000 shares had vested as of June 30, 2006, and 39,000 shares were unvested. As of June 30, 2006, unrecognized compensation expense was \$367,000. Any significant increase in future stock-based awards could materially impact earnings.

21

Income taxes. The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In fiscal 2005, the Company reached a settlement with the State of Minnesota for \$525,000 for fiscal years 2000 to 2002. The settlement was fully accrued for at June 30, 2004.

Assessment of claims or pending litigation. The Company is routinely subject to claims and involved in legal actions which are incidental to the business of the Company. Although it is difficult to predict the ultimate outcome of these matters, management believes that any ultimate liability will not materially affect the consolidated financial position or results of operations of the Company. As additional information becomes available, the Company will assess the potential liabilities related to claims or pending litigation and revise estimates as needed. Such revisions could materially impact the Company's consolidated financial position or results of operations.

### Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Staff Position No. 109-1, Application of FASB Statement No. 109 (SFAS 109), Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP 109-1). FSP 109-1 clarifies that the manufacturer's deduction provided for under the American Jobs Creation Act of 2004 (AJCA) should be accounted for as a special deduction in accordance with SFAS 109 and not as a tax rate reduction. The manufacturer's deduction was available to the Company beginning in fiscal year 2006 and the Company accounted for the manufacturer's deduction as provided for in FSP 109-1. The deduction reduced income tax expense approximately \$879,000 for the year ended June 30, 2006.

The FASB also issued Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP 109-2). The AJCA introduces a special one-time

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer provided certain criteria are met. The Company periodically evaluates the possibility of repatriating foreign earnings. At the present time, deferred taxes have not been recorded on undistributed earnings of foreign subsidiaries as the amounts are considered permanently invested. If the Company decides to repatriate foreign earnings a one-time charge may be recorded for the deferred taxes.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. The Statement replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires companies to apply voluntary changes in accounting principles retrospectively whenever practicable. The requirements are effective for the Company beginning in fiscal 2007. Adoption of the Statement will not have an impact on the Company's prior consolidated financial statements as it is prospective in nature.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 requires disclosures of additional quantitative and qualitative information regarding uncertain tax positions taken for tax-return purposes that have not been recognized for financial reporting, along with analysis of significant changes during each period. The Interpretation is effective for the Company in fiscal 2008. The Company is currently evaluating the provisions of FIN 48, but it is not expected to have a material impact on the Company's consolidated financial statements.

### Market Risk

At the end of fiscal 2006, the Company had an independently managed investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$96.5 million (see Note A of Notes to Consolidated Financial Statements). These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase.

22

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency rate changes. The Company is exposed to market risk from foreign exchange rate fluctuations of the euro and the British pound sterling to the U.S. dollar as the financial position and operating results of the Company's U.K. subsidiary and European operations are translated into U.S. dollars for consolidation. At the current level of R&D Europe operating results, a 10% increase or decrease in the average exchange rate used to translate operating results into U.S. dollars would have an approximate \$1.4 million effect on annual consolidated operating income. Month-end exchange rates between the British pound and the U.S. dollar were as follows:

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
High	\$1.87	\$1.92	\$1.87
Low	1.72	1.79	1.58
Average	1.78	1.86	1.75

The Company's exposure to foreign exchange rate fluctuations also arises from transferring funds from the U.K. subsidiary to the U.S. subsidiary and from transferring funds from the German subsidiary and French sales office to the U.K. subsidiary. At June 30, 2006 and 2005, the Company had \$257,000 and

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

\$642,000, respectively, of dollar denominated intercompany debt at its U.K. subsidiary and the U.K. subsidiary had \$509,000 and \$510,000, respectively, of dollar denominated intercompany debt from its European operations. These intercompany balances are revolving in nature and are not deemed to be long-term balances. The Company's U.K. subsidiary recognized net foreign currency gains of 17,000 British pound sterling (\$30,000), 135,000 British pound sterling (\$251,000) and 36,000 British pound sterling (\$64,000) for the years ended June 30, 2006, 2005 and 2004, respectively. The Company's German subsidiary recognized net foreign currency losses of 125,000 euro (\$157,000) for the year ended June 30, 2005. The Company does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes on intercompany foreign currency denominated balance sheet positions.

As of June 30, 2006, the Company's long-term debt consisted of a mortgage note payable. The interest rate on the mortgage is at a floating interest rate at the one month London interbank offered rate (Libor) plus 2.5% with a floor of 4%. The floating interest rate on the mortgage note payable was 7.6% as of June 30, 2006.

### Forward-looking Information

Statements in this Annual Report, and elsewhere, that are forward-looking involve risks and uncertainties which may affect the Company's actual results of operations. Certain of these risks and uncertainties which have affected and, in the future, could affect the Company's actual results are discussed below.

The Company's biotechnology products are sold primarily to research scientists at pharmaceutical and biotechnology companies and at university and government research institutions. Changes in spending on research by such companies and in funding of such universities and institutions by government, including the National Institutes of Health, affects the revenues and earnings of the Company. The Company carries essentially no backlog of orders and changes in the level of orders received and filled daily can cause fluctuations in quarterly revenues and earnings.

Approximately one quarter of the Company's sales are made through its European subsidiary, R&D Systems Europe, which makes its sales in foreign currencies. The Company's revenues and earnings are, therefore, affected by fluctuations in currency exchange rates.

The biotechnology industry is subject to rapid and significant technological change. While the hematology controls industry historically has been less subject to rapid change, it too is evolving and is impacted significantly by changes in the automated testing equipment offered by instrument manufacturers. Competitors of the Company are numerous and include, among others, specialized biotechnology firms, medical laboratory instrument and equipment manufacturers and disposables suppliers, major pharmaceutical companies, universities and other research institutions. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that are more effective than any which have been or are being developed by the Company or that would render the Company's technologies and products obsolete or noncompetitive.

The Company's success will depend, in part, on its ability to obtain licenses and patents, maintain trade secret protection and operate without infringing the proprietary rights of others. The Company has obtained and is negotiating licenses to produce a number of cytokines and related products claimed to be owned by others. Since the Company has not conducted a patent

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

infringement study for each of its products, it is possible that products of the Company may unintentionally infringe patents of third parties or that the Company may have to alter its products or processes, pay licensing fees or cease certain activities because of patent rights of third parties, thereby causing additional unexpected costs and delays which may have a material adverse effect on the Company.

The Company's expansion strategies, which include internal development of new products, collaborations, investments in joint ventures and companies developing new products related to the Company's business, and the acquisition of companies for new products and additional customer base, carry risks that objectives will not be achieved and future earnings will be adversely affected. Under the equity method of accounting, a percentage of the losses of certain companies in which the Company invests will be reported as losses of the Company. The Company may not have control of the expense levels of such companies and their losses may be greater than those anticipated by the Company. Additionally, if the Company determines that its investment in unconsolidated companies is "other than temporarily" impaired, the Company may write off its entire investment in such company.

Ongoing research and development activities and the production and marketing of certain of the Company's products are subject to regulation by numerous governmental authorities in the United States and other countries. The approval process applicable to clinical diagnostic products of the type that may be developed by the Company may take a year or more. Delays in obtaining approvals could adversely affect the marketing of new products developed by the Company.

Recruiting and retaining qualified scientific and production personnel to perform research and development work and product manufacturing are critical to the Company's success. The Company's anticipated growth and its expected expansion into areas and activities requiring additional expertise will require the addition of new personnel and the development of additional expertise by existing personnel. The failure to attract and retain such personnel could adversely affect the Company's business.

The Company undertakes no obligation to update or revise any forward-looking statements made due to new information or future events. Investors are cautioned not to place undue emphasis on these statements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See discussion under "Market Risk" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

24

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF EARNINGS  
TECHNE Corporation and Subsidiaries  
(in thousands, except per share data)

	Year Ended June 30,	
	2006	2005
		2004

Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Net sales	\$202,617	\$178,652	\$161,257
Cost of sales	45,718	36,813	34,887
Gross margin	156,899	141,839	126,370
Operating expenses:			
Selling, general and administrative	27,604	24,476	21,725
Research and development	18,825	18,379	20,773
Amortization of intangible assets (Note D)	1,967	1,221	1,599
Total operating expenses	48,396	44,076	44,097
Operating income	108,503	97,763	82,273
Other expense (income):			
Interest expense	964	822	678
Interest income	(4,708)	(4,109)	(3,251)
Impairment loss on equity investment (Note A)	--	--	1,523
Other non-operating expense, net	1,084	1,163	782
Total other income	(2,660)	(2,124)	(268)
Earnings before income taxes	111,163	99,887	82,541
Income taxes (Note H)	37,812	33,755	29,613
Net earnings	\$ 73,351	\$ 66,132	\$ 52,928
Earnings per share:			
Basic	\$ 1.88	\$ 1.64	\$ 1.29
Diluted	\$ 1.85	\$ 1.62	\$ 1.27
Weighted average common shares outstanding:			
Basic	39,049	40,359	41,046
Diluted	39,594	40,920	41,697

See Notes to Consolidated Financial Statements.

25

CONSOLIDATED BALANCE SHEETS  
TECHNE Corporation and Subsidiaries  
(in thousands, except share and per share data)

	June 30, 2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 89,634	\$ 80,344
Short-term available-for-sale investments (Note A)	19,212	16,790
Trade accounts receivable, less allowance for doubtful accounts of \$120 and \$118, respectively	23,769	22,041
Other receivables	1,309	1,681
Inventories (Note B)	9,024	7,758
Deferred income taxes (Note H)	6,121	5,467
Prepaid expenses	753	900
Total current assets	149,822	134,981
Available-for-sale investments (Note A)	77,660	42,189
Property and equipment, net (Note C)	88,772	89,036

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Goodwill (Note D)	25,308	12,540
Intangible assets, net (Note D)	6,713	1,598
Deferred income taxes (Note H)	4,638	6,524
Investments (Note A)	17,195	7,778
Other assets	404	617
	-----	-----
	\$370,512	\$295,263
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 3,627	\$ 2,715
Salaries, wages and related accruals	5,148	4,895
Other accounts payable and accrued expenses	1,833	1,360
Income taxes payable	6,129	3,808
Current portion of long-term debt (Note E)	1,229	1,238
	-----	-----
Total current liabilities	17,966	14,016
Long-term debt, less current portion (Note E)	12,198	13,378
	-----	-----
Total liabilities	30,164	27,394
	-----	-----
Commitments and contingencies (Note F)		
Stockholders' equity (Note G):		
Undesignated capital stock, no par; authorized		
5,000,000 shares; none issued or outstanding	--	--
Common stock, par value \$.01 a share; authorized		
100,000,000 shares; issued and outstanding		
39,376,782 and 38,636,658 shares, respectively	394	386
Additional paid-in capital	101,941	78,804
Retained earnings	232,328	185,049
Accumulated other comprehensive income (Note M)	5,685	3,630
	-----	-----
Total stockholders' equity	340,348	267,869
	-----	-----
	\$370,512	\$295,263
	=====	=====

See Notes to Consolidated Financial Statements.

26

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Note M) TECHNE Corporation and Subsidiaries (in thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accum. Other Compre- hensive Income	Total
	-----	-----	-----	-----	-----	-----
Balances at June 30, 2003	40,913	\$ 409	\$ 63,279	\$169,809	\$ 3,120	\$236,
Comprehensive income:						



Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Net earnings	--	--	--	52,928	--	52,
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	--	--	--	--	3,271	3,
Unrealized losses on available-for-sale investments	--	--	--	--	(1,066)	(1,
						-----
Comprehensive income						55,
Common stock issued for exercise of options (Note G)	242	3	4,094	--	--	4,
Surrender and retirement of stock to exercise options (Note L)	(0)	(0)	--	(9)	--	
Tax benefit from exercise of stock options	--	--	1,587	--	--	1,
	-----	-----	-----	-----	-----	-----
Balances at June 30, 2004	41,155	412	68,960	222,728	5,325	297,
Comprehensive income:						
Net earnings	--	--	--	--	66,132	66,
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	--	--	--	--	(1,464)	(1,
Unrealized losses on available-for-sale investments	--	--	--	--	(231)	(
						-----
Comprehensive income						64,
Common stock issued for exercise of warrant (Note G)	120	1	1,425	--	--	1,
Common stock issued for exercise of options (Note G)	269	3	6,750	--	--	6,
Surrender and retirement of stock to exercise options (Note L)	(4)	(1)	--	(166)	--	(
Repurchase and retirement of common stock (Note G)	(2,903)	(29)	--	(103,645)	--	(103,
Contribution to Stock Bonus Plan (Note L)	--	--	308	--	--	
Tax benefit from exercise of stock options	--	--	1,361	--	--	1,
	-----	-----	-----	-----	-----	-----
Balances at June 30, 2005	38,637	386	78,804	185,049	3,630	267,
Comprehensive income:						
Net earnings	--	--	--	73,351	--	73,
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	--	--	--	--	2,539	2,
Unrealized losses on available-for-sale investments	--	--	--	--	(484)	(
						-----
Comprehensive income						75,
Common stock issued for exercise of options						

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

(Note G)	742	8	12,633	--	--	12,
Surrender and retirement of stock to exercise options						
(Note L)	(2)	0)	--	(91)	--	
Repurchase and retirement of common stock (Note G)	--	--	--	(25,981)	--	(25,
Stock-based compensation expense (Note A)	--	--	1,628	--	--	1,
Tax benefit from exercise of stock options	--	--	8,876	--	--	8,
	-----	-----	-----	-----	-----	-----
Balances at June 30, 2006	39,377	\$ 394	\$101,941	\$232,328	\$ 5,685	\$340,
	=====	=====	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

27

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Note L) TECHNE Corporation and Subsidiaries (in thousands)

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Cash flows from operating activities:			
Net earnings	\$ 73,351	\$ 66,132	\$ 52,928
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	6,955	6,108	6,040
Deferred income taxes	(937)	672	317
Stock-based compensation expense	1,628	--	--
Excess tax benefit from stock option exercises	(7,989)	--	--
Losses by equity method investees	418	306	2,853
Impairment loss on equity investment	--	--	1,523
Other	129	104	335
Change in operating assets and liabilities, net of acquisitions:			
Trade accounts and other receivables	(2,153)	(1,034)	1,170)
Inventories	1,111	(325)	(1,017)
Prepaid expenses	169	51	(119)
Trade, other accounts payable and accrued expenses	253	153	(1,069)
Salaries, wages and related accruals	1,554	1,959	1,614
Income taxes payable	11,100	307	3,318
	-----	-----	-----
Net cash provided by operating activities	85,589	74,433	65,553
	-----	-----	-----
Cash flows from investing activities:			
Additions to property and equipment	(4,603)	(11,410)	(3,710)
Purchase of available-for-sale investments	(94,985)	(146,870)	(144,630)
Proceeds from maturities of available-for-sale investments	8,150	33,256	29,345
Proceeds from sale of available-for-sale investments	50,058	178,760	67,550

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Increase in other long-term assets	--	(461)	--
Acquisitions, net of cash acquired	(19,587)	--	--
Increase in investments	(9,750)	--	(8,062)
	-----	-----	-----
Net cash (used in) provided by investing activities	(70,717)	53,275	(59,507)
	-----	-----	-----
Cash flows from financing activities:			
Issuance of common stock	12,550	8,012	4,088
Excess tax benefit from stock option exercises	7,989	--	--
Purchase of common stock for stock bonus plans	(1,292)	(260)	--
Repurchase of common stock	(25,981)	(103,674)	--
Payments on long-term debt	(1,189)	(1,241)	(1,229)
	-----	-----	-----
Net cash (used in) provided by financing activities	(7,923)	(97,163)	2,859
	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents	2,341	(1,402)	2,925
	-----	-----	-----
Net increase in cash and cash equivalents	9,290	29,143	11,830
Cash and cash equivalents at beginning of year	80,344	51,201	39,371
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 89,634	\$ 80,344	\$ 51,201
	=====	=====	=====

See Notes to Consolidated Financial Statements.

28

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TECHNE Corporation and Subsidiaries

Years Ended June 30, 2006, 2005 and 2004

#### A. Description of business and summary of significant accounting policies:

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

R&D Systems acquired two subsidiaries effective July 1, 2005. Fortron Bio Science, Inc. (Fortron), a developer and manufacturer of monoclonal and polyclonal antibodies, antigens and other biological reagents. Fortron was relocated to the Company's Minneapolis facility in the first quarter of fiscal 2006. BiosPacific, Inc. (BiosPacific), located in Emeryville, California, is a worldwide supplier of biologics to manufacturers of in vitro

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

diagnostic systems (IVDs) and immunodiagnostic kits. BiosPacific is the primary distributor of Fortron products. Fortron and BiosPacific had shared a unique strategic relationship since 1992 that combined Fortron's development and manufacturing excellence with BiosPacific's marketing and sales expertise.

**Estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risk and uncertainties:** There are no concentrations of business transacted with a particular customer or supplier nor concentrations of revenue from a particular product or geographic area that would severely impact the Company in the near term.

**Principles of consolidation:** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

**Translation of foreign financial statements:** Assets and liabilities of the Company's foreign operations are translated at year-end rates of exchange and the foreign statements of earnings are translated at the average rate of exchange for the year. Gains and losses resulting from translating foreign currency financial statements are not included in operations but are accumulated in other comprehensive income. Foreign currency transaction gains and losses are included in operations.

**Revenue recognition:** The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. Payment terms for shipments to end-users are net 30 days. Payment terms for distributor shipments may range from 30 to 90 days. Products are shipped FOB shipping point. Freight charges billed to end-users are included in net sales and freight costs are included in cost of sales. Freight charges on shipments to distributors are paid directly by the distributor. Any claims for credit or return of goods must be made within 10 days of receipt. Revenues are reduced to reflect estimated credits and returns.

**Research and development:** Research and development expenditures are expensed as incurred. Development activities generally relate to creating new products, improving or creating variations of existing products, or modifying existing products to meet new applications. Included in research and development expense for fiscal 2004 was the Company's share of losses by development stage companies in which it had invested due to the Company obtaining research market rights to products developed by the investee companies. (See Investments below.)

**Advertising costs:** Advertising expenses (including production and communication costs) for fiscal 2006, 2005 and 2004 were \$2.6 million per year. The Company expenses advertising expenses as incurred.

**Income taxes:** The Company uses the asset and liability method of

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

accounting for income taxes. Deferred tax assets and liabilities are recognized to record the income tax effect of temporary differences between the tax basis and financial reporting basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Cash and equivalents:** Cash and cash equivalents include cash on hand and highly-liquid investments with original maturities of three months or less.

**Available-for-sale investments:** Available-for-sale investments consist mainly of debt instruments with original maturities of generally greater than three months to three years. The Company considers all of its marketable securities available-for-sale and reports them at fair market value. Fair market values are based on quoted market prices. Unrealized gains and losses on available-for-sale securities are excluded from income, but are included in other comprehensive income. If an "other than temporary" impairment is determined to exist, the difference between the value of the investment security recorded in the financial statements and the Company's current estimate of the fair value is recognized as a charge to earnings in the period in which the impairment is determined.

At June 30, 2006 and 2005, the amortized cost and market value of the Company's available-for-sale securities by major security type were as follows (in thousands):

	June 30, 2006		2005	
	Cost	Market	Cost	Market
State and municipal securities	\$97,308	\$96,549	\$58,007	\$57,735
Corporate debt security	--	--	925	926
Marketable equity security	400	323	400	318
	97,708	96,872	59,332	58,979
Net unrealized losses	(836)	--	(353)	--
	\$96,872	\$96,872	\$58,979	\$58,979
	=====	=====	=====	=====

Gross unrealized gains and losses on state and municipal securities were \$1,000 and \$760,000, respectively, at June 30, 2006. Gross unrealized gains and losses on state and municipal securities were \$32,000 and \$304,000, respectively, at June 30, 2005.

Contractual maturities of available-for-sale state, municipal and corporate debt securities are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to recall or prepay obligations with or without call or prepayment penalties.

Year Ending June 30, 2006:

Due within one year	\$19,212
Due in one to three years	77,337
	-----
Total debt securities	96,549
Equity security	323
	-----
	\$96,872

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

=====

At June 30, 2006, the Company's investments in an unrealized loss position that have been determined to be temporarily impaired are as follows (in thousands):

	Period of Unrealized Loss		Period of Unrealized Loss		Total	
	Less Than One Year		Greater Than One Year			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal securities	\$78,143	\$612	\$15,626	\$148	\$93,769	\$760
Marketable equity securities	--	--	323	77	323	77
	\$78,143	\$612	\$15,949	\$225	\$94,092	\$837
	=====	=====	=====	=====	=====	=====

30

The unrealized losses on the Company's investments in state and municipal securities were caused by interest rate increases. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2006.

The Company's investment in marketable equity securities is not material and consists of an investment in the common stock of a publicly held company primarily focused on the development and sale of cancer diagnostic and research products and services. The investee was considered a development stage company through September 2005.

Proceeds from maturities or sales of available-for-sale securities were \$58.2 million, \$212.0 million and \$96.9 million during fiscal 2006, 2005 and 2004, respectively. There were no material gross realized gains or losses on these sales. Realized gains and losses are determined on the specific identification method.

**Inventories:** Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company regularly reviews inventory on hand for slow-moving and obsolete inventory, inventory not meeting quality control standards and inventory subject to expiration.

To meet strict customer quality standards, the Company has established a highly controlled manufacturing process for proteins and antibodies. New protein and antibody products require the initial manufacture of multiple batches to determine if quality standards can be consistently met. In addition, the Company will produce larger batches of established products than current sales requirements due to economies of scale. The manufacturing process for proteins and antibodies, therefore, has and will continue to produce quantities in excess of forecasted usage. The Company values its manufactured protein and antibody inventory based on a two-year forecast. Protein and antibody quantities in excess of the two-year usage forecast are considered impaired and not included in the inventory value. Through March 31, 2006, due to changes in the Company's forecast, reserves for previously written off inventories may have been reversed in subsequent periods. Inventory reserves reversed through March 31, 2006 were not material

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

to the Company's consolidated results of operations, consolidated financial position, assets or stockholders' equity as of and for each of the periods presented. Subsequent to March 31, 2006, the Company changed its policy and no longer writes up previously unvalued inventories. This change in valuation method did not have a material impact on the Company's fiscal 2006 consolidated financial statements.

**Depreciation and amortization:** Equipment is depreciated using the straight-line method over an estimated useful life of five years. Buildings, building improvements and leasehold improvements are amortized over estimated useful lives of five to forty years.

**Goodwill and intangible assets:** At June 30, 2006 the Company had net unamortized goodwill of \$25.3 million. The Company completed its annual impairment testing of goodwill and concluded that no impairment existed as of June 30, 2006. The Company used discounted cash flow and other fair value methodologies to assess impairment. Other intangible assets are being amortized over their estimated useful lives.

**Impairment of intangible and other long-lived assets:** Management reviews the carrying value of intangible and other long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets is based on the estimated future cash flows expected to result from the use of these assets. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset group exceeds the fair value of the asset group based on discounted estimated future cash flows. To date, management has determined that no impairment exists.

31

**Investments:** The Company has invested in the preferred stock of ChemoCentryx, Inc. (CCX), a technology and drug development company. Through April 2004 the Company held 26% of the outstanding stock of CCX and accounted for the investment under the equity method of accounting. In May and June, 2004 CCX obtained additional financing through the issuance of preferred stock. The financing included a \$5.1 million investment by the Company. After the financing the Company held a 19.9% equity interest in CCX. The Company evaluated the cost versus equity method of accounting for its investment in CCX and determined that it does not have the ability to exercise significant influence over the operating and financial policies of CCX and therefore, after April 2004, accounted for its investment on a cost basis. The Company's net investment in CCX at June 30, 2005 was \$5.1 million. In April 2006, the Company made an additional \$9 million investment in CCX in the form of a 5% convertible note subject to the limitation that the Company's holdings in CCX not exceed 19.9% of the outstanding voting shares. In June 2006, \$4.3 million of the note was converted into CCX preferred stock. The Company's equity interest in CCX remained at 19.9%. The Company's net investment in CCX at June 30, 2006 was \$14.2 million, including a convertible note and accrued interest aggregating \$4.8 million. In August 2006, the convertible note and accrued interest was converted into shares of CCX preferred stock and the Company's equity interest in CCX decreased to 19.3%. In accordance with paragraphs 14 and 15 of Statement of Financial Accounting Standards (SFAS) No. 107, Disclosures About Fair Value of Financial Instruments, the Company has determined that because CCX is privately held, it is not practicable to estimate the fair value of its investment in CCX and has not identified any events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

On January 1, 2004, the Company purchased a 10% interest in Hemerus Medical, LLC (Hemerus) for \$3 million. On March 1, 2006, the Company invested an additional \$750,000 in Hemerus, increasing its ownership percentage to 15%. Hemerus was formed in March 2001 and has acquired and is developing technology for the separation of leukocytes from blood and blood components. Leukoreduced blood is important in blood transfusion. Hemerus owns two patents and has several patent applications pending and is currently pursuing FDA clearance to market its products in the U.S. In parallel with this investment, R&D Systems entered into a Joint Research Agreement with Hemerus. The research will involve joint projects to explore the use of Hemerus's filter technology to applications within R&D Systems' Hematology and Biotechnology Divisions. Such applications, if any, may have commercial potential in other laboratory environments. The Company accounts for its investment in Hemerus under the equity method of accounting as Hemerus is a limited liability corporation. The Company's net investment in Hemerus was \$3.0 million and \$2.6 million at June 30, 2006 and 2005, respectively.

On August 2, 2001, the Company made an equity investment of \$3 million in Discovery Genomics, Inc. (DGI) preferred stock. DGI holds licenses from the University of Minnesota to develop technologies used for functional genomics and the discovery of drug targets. The Company holds a 38% equity interest in DGI and accounted for this investment under the equity method of accounting. During fiscal 2004, the Company determined that its investment in DGI was other than temporarily impaired and wrote off the remaining net investment of \$1.5 million. The Company has been issued warrants for 1.5 million shares of DGI preferred stock which expire on August 2, 2008.

Except for the April 2006 CCX convertible note, the Company does not provide loans, guarantees or other financial assistance to CCX, DGI or Hemerus and has no obligation to provide additional funding.

32

Share-based compensation: As permitted through June 30, 2005 by SFAS No. 123, Accounting for Stock-Based Compensation, the Company elected to continue following the guidance of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, for measurement and recognition of stock-based transactions with employees. Through June 30, 2005, no compensation cost had been recognized for stock options granted to employees under the plans because the exercise price of all options granted was at least equal to the fair value of the common stock at the date of grant. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004) (SFAS No. 123R), Share-Based Payment. The Statement is a revision of SFAS No. 123 and supercedes APB No. 25. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services through stock-based payment transactions. The Statement requires a public entity to measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant.

The Company adopted SFAS No. 123R as of July 1, 2005 using the modified prospective transition method. Under that transition method, compensation cost recognized in fiscal 2006 includes: (1) compensation cost for all stock-based payments granted prior to, but not yet vested as of June 30, 2005, based on the grant date fair value calculated in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all stock-based payments granted subsequent to June 30, 2005, based on the grant-date fair value calculated in accordance with the provisions of SFAS No. 123R. Compensation cost is recognized using a straight-line method over the vesting



## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

period and is net of estimated forfeitures. Stock-based compensation cost is included within the same line item on the consolidated statement of earnings as cash compensation paid to the optionee. Results for prior periods have not been restated.

As a result of adopting SFAS No. 123R, the Company's earnings before income taxes for the year ended June 30, 2006 were \$1.6 million less than if it had continued to account for stock-based compensation under APB Opinion No. 25. Net earnings for the year ended June 30, 2006 were \$1.1 million less than would have been reported under APB Opinion No. 25. The adoption of SFAS No. 123R had a \$0.03 negative impact on basic and diluted earnings per share for the year ended June 30, 2006.

If compensation cost for employee options granted under the Company's stock option plans had been determined based on the fair value at the grant dates, consistent with the methods provided in SFAS No. 123 the Company's net earnings and earnings per share would have been as follows (in thousands, except per share data):

	Year Ended June 30,	
	2005	2004
	-----	-----
Net earnings:		
As reported	\$66,132	\$52,928
Less employee stock-based compensation, net of tax effect	1,530	3,253
Plus employee stock-based compensation expense included in net earnings	--	--
	-----	-----
Pro forma	\$64,602	\$49,675
	=====	=====
Basic earnings per share:		
As reported	\$ 1.64	\$ 1.29
Less employee stock-based compensation, net of tax effect	0.04	0.08
Plus employee stock-based compensation expense included in net earnings	--	--
	-----	-----
Pro forma	\$ 1.60	\$ 1.21
	=====	=====
Diluted earnings per share:		
As reported	\$ 1.62	\$ 1.27
Less employee stock-based compensation, net of tax effect	0.04	0.08
Plus employee stock-based compensation expense included in net earnings	--	--
	-----	-----
Pro forma	\$ 1.58	\$ 1.19
	=====	=====

Derivative instruments and hedging activities: The Company has determined that it has no free-standing or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not use free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

**Recent accounting pronouncements:** In December 2004, the FASB issued Staff Position No. 109-1, Application of FASB Statement No. 109 (SFAS 109), Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP 109-1). FSP 109-1 clarifies that the manufacturer's deduction provided for under the American Jobs Creation Act of 2004 (AJCA) should be accounted for as a special deduction in accordance with SFAS 109 and not as a tax rate reduction. The manufacturer's deduction was available to the Company beginning in fiscal year 2006 and the Company accounted for the manufacturer's deduction as provided for in FSP 109-1. The deduction reduced income tax expense approximately \$879,000 for the year ended June 30, 2006.

The FASB also issued Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP 109-2). The AJCA introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer provided certain criteria are met. The Company periodically evaluates the possibility of repatriating foreign earnings. At the present time, deferred taxes have not been recorded on undistributed earnings of foreign subsidiaries as the amounts are considered permanently invested. If the Company decides to repatriate foreign earnings a one-time charge may be recorded for the deferred taxes.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. The Statement replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires companies to apply voluntary changes in accounting principles retrospectively whenever practicable. The requirements are effective for the Company beginning in fiscal 2007. Adoption of the Statement is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. Interpretation No. 48 requires disclosures of additional quantitative and qualitative information regarding uncertain tax positions taken for tax-return purposes that have not been recognized for financial reporting, along with analysis of significant changes during each period. The Interpretation is effective for the Company in fiscal 2008. The Interpretation is not expected to have a significant impact on the Company's consolidated financial statements.

**Reclassifications:** Certain reclassifications have been made to prior years consolidated financial statements to conform to the current year presentation. These reclassifications had no impact on net earnings or stockholders' equity as previously reported.

### B. Inventories:

Inventories consist of (in thousands):

	June 30,	
	2006	2005
	-----	-----
Raw materials	\$ 3,561	\$ 3,127
Finished goods	5,344	4,496
Supplies	119	135
	-----	-----
	\$ 9,024	\$ 7,758
	=====	=====

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

## C. Property and equipment:

Property and equipment consist of (in thousands):

	June 30,	
	2006	2005
	-----	-----
Cost:		
Land	\$ 4,214	\$ 4,214
Buildings and improvements	88,399	87,232
Building construction in progress	9,965	9,195
Laboratory equipment	19,473	17,926
Office and computer equipment	3,711	3,545
Leasehold improvements	843	711
	-----	-----
	126,605	122,823
Less accumulated depreciation and amortization	37,833	33,787
	-----	-----
	\$ 88,772	\$ 89,036
	=====	=====

34

## D. Goodwill and intangible assets:

Effective July 1, 2005, the Company, through its R&D Systems subsidiary, acquired Fortron Bio Science, Inc. and BiosPacific, Inc. All of the shares of privately-held Fortron and substantially all of the assets of privately-held BiosPacific were acquired. The fiscal 2006 consolidated statement of earnings includes the full year operating results of Fortron and BiosPacific. Fortron and BiosPacific operated at break-even in fiscal 2005 on revenues of approximately \$9.0 million.

The allocation of the purchase price was as follows (in thousands):

Fair value of tangible assets acquired	\$ 3,580
Fair value of identified intangible assets	7,083
Goodwill	12,768
Deferred income taxes	(2,173)
Liabilities assumed and acquisition costs	(1,258)
	-----
Cash purchase price	\$20,000
	=====

Approximately \$3.1 million and \$6.7 million of intangible assets and goodwill, respectively, are deductible for income tax purposes.

Goodwill and intangible assets consist of (in thousands):

		June 30,	
	Useful Life	2006	2005
	-----	-----	-----
Goodwill	N/A	\$ 51,614	\$ 38,846
Less accumulated amortization		26,306	26,306
		-----	-----
		\$ 25,308	\$ 12,540

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

		=====	=====
Customer relationships	2-10 years	\$ 20,200	\$ 18,010
Technology	8-16 years	4,213	730
Trade names and trademarks	5 years	1,396	--
Supplier relationships	1 year	14	--
		-----	-----
		25,823	18,740
Less accumulated amortization		19,110	17,142
		-----	-----
		\$ 6,713	\$ 1,598
		=====	=====

The estimated future amortization expense for intangible assets as of June 30, 2006 is as follows (in thousands):

Year Ending June 30:

-----	
2007	\$1,614
2008	1,135
2009	960
2010	960
2011	681
Thereafter	1,363
	-----
	\$6,713
	=====

## E. Debt:

The Company's short-term line of credit facility consists of an unsecured line of credit of \$0.8 million at June 30, 2006. The line of credit expires on October 31, 2006. The interest rate charged on the line of credit is a floating rate at the one month London interbank offered rate (Libor) plus 1.75%. The floating rate on the line of credit was 6.85% at June 30, 2006. There were no borrowings on the line outstanding as of June 30, 2006 and 2005.

Long-term debt consists of (in thousands):

	June 30,	
	2006	2005
	-----	-----
Mortgage note, payable in monthly installments through August 2014	\$ 13,427	\$ 14,616
Less current portion	1,229	1,238
	-----	-----
	\$ 12,198	\$ 13,378
	=====	=====

The interest rate on the mortgage note is at a floating interest rate at the one month Libor plus 2.5% with a floor of 4%. The floating interest rate on the mortgage note payable was 7.6% as of June 30, 2006. The mortgage note is secured by buildings with a carrying value of \$20.8 million at June 30, 2006.

Scheduled principal maturities of long-term debt as of June 30, 2006

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

assuming a 7.6% interest rate are as follows (in thousands):

Year Ending June 30:

-----	
2007	\$ 1,229
2008	1,325
2009	1,433
2010	1,547
2011	1,671
Thereafter	6,222
	-----
	\$13,427
	=====

### F. Commitments and contingencies:

The Company leases buildings, vehicles and various data processing, office and laboratory equipment under operating leases. These leases provide for renewal or purchase options during or at the end of the lease periods. At June 30, 2006, aggregate net minimum rental commitments under noncancelable leases having an initial or remaining term of more than one year are payable as follows (in thousands):

Year Ending June 30:

-----	
2007	\$ 797
2008	693
2009	605
2010	564
2011	530
Thereafter	2,265
	-----
	\$5,454
	=====

Total rent expense was approximately \$710,000, \$654,000 and \$594,000 for the years ended June 30, 2006, 2005 and 2004, respectively.

The Company is routinely subject to claims and involved in legal actions which are incidental to the business of the Company. Although it is difficult to predict the ultimate outcome of these matters, management believes that any ultimate liability will not materially affect the consolidated financial position or results of operations of the Company.

### G. Stockholders' equity:

Stock option plans: The Company has stock option plans which provide for the granting of stock options to employees (the TECHNE Corporation 1997 Incentive Stock Option Plan) and to employees, officers, directors and consultants (the TECHNE Corporation 1998 Nonqualified Stock Option Plan). The plans are administered by the Board of Directors, or a committee designated by the Board, which determines the persons who are to receive awards under the plans, the number of shares subject to each award and the term and exercise price of each option. The maximum term of options granted under all plans is ten years. The number of shares of common stock authorized to be issued and available for grant at June 30, 2006 are as follows (in thousands):

Available

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

	Authorized -----	for Grant -----
1997 Plan	3,200	2,376
1998 Plan	1,600	982

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:

	Year Ended June 30, 2006                      2005                      2004 -----		
Dividend yield	--	--	--
Expected volatility	32%-53%	40%-57%	48%-53%
Risk-free interest rates	4.0%-5.1%	3.1%-3.9%	3.9%-4.4%
Expected lives	6 years	6 years	7 years

The Company has not paid cash dividends and does not have any plans to do so, therefore an expected dividend yield of zero was used to estimate fair value of options granted. The expected annualized volatility is based on the Company's historical stock price over a period equivalent to the expected life of the option granted. The risk-free interest rate is based on U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately in determining option fair value.

36

Stock option activity under the Plans for the three years ended June 30, 2006, consist of the following (shares in thousands):

	Shares -----	Weighted Average Exercise Price -----	Weighted Avg. Contractual Life (Yrs.) -----	Aggregate Intrinsic Value -----
Outstanding at June 30, 2003	1,357	\$ 20.45		
Granted	239	36.40		
Forfeited or expired	(17)	45.83		
Exercised	(242)	16.93		
Outstanding at June 30, 2004	1,337	23.60		
Granted	64	39.08		
Forfeited or expired	(2)	36.50		
Exercised	(269)	25.14		
Outstanding at June 30, 2005	1,130	24.11		
Granted	43	53.95		
Forfeited or expired	(10)	52.41		
Exercised	(742)	17.04		
Outstanding at June 30, 2006	421	38.89	4.75	\$5.3 million
Exercisable at June 30:				
2004	1,225	22.36		
2005	1,059	23.09		
2006	382	38.39	4.50	\$5.0 million

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

The weighted average fair value of options granted during fiscal 2006, 2005 and 2004 was \$28.07, \$20.42 and \$21.51, respectively. The total intrinsic value of options exercised during fiscal 2006, 2005 and 2004 were \$28.6 million, \$4.8 million and \$4.9 million, respectively. Stock option exercises are satisfied through the issuance of new shares. The total fair value of options vested during fiscal 2006, 2005 and 2004 were \$1.9 million, \$2.3 million and \$2.8 million, respectively.

Stock-based compensation cost of \$1.6 million was included in selling, general and administrative expense in fiscal 2006. As of June 30, 2006, there was \$367,000 of total unrecognized compensation cost related to nonvested stock options which will be expensed over fiscal years 2007 through 2009.

Stock repurchase: In March 2005, the Company repurchased approximately 2.9 million shares of its common stock under an accelerated stock buyback ("ASB") transaction for an initial value of approximately \$100 million (\$34.45 per share). The transaction was completed under a privately negotiated contract with an investment bank. The investment bank borrowed the 2.9 million shares to complete the transaction and purchased the replacement shares in the open market over a nine-month period beginning in March 2005. The ASB agreement was subject to a market price adjustment provision based upon a volume weighted average price during the nine-month period. Approximately 1.8 million of the shares repurchased were subject to a collar, which effectively set a minimum price the Company was obligated to pay for such shares. The collar was established in exchange for an up-front payment of \$3.5 million. The Company had the option to settle the ASB agreement in cash or shares of the Company's common stock and, accordingly the contract was classified as equity. The ASB agreement was settled in December 2005 for a cash payment of \$26.0 million, which resulted in a total price paid per share of approximately \$44.67.

### H. Income taxes:

The provisions for income taxes consist of the following (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Earnings before income taxes consist of:			
Domestic	\$ 90,011	\$ 78,302	\$ 65,716
Foreign	21,152	21,585	16,825
	-----	-----	-----
	\$111,163	\$ 99,887	\$ 82,541
	=====	=====	=====
Taxes on income consist of:			
Currently payable:			
Federal	\$ 29,564	\$ 24,675	\$ 22,333
State	2,382	1,831	2,014
Foreign	6,803	6,574	4,977
Net deferred:			
Federal	(912)	270	247
State	(66)	301	19
Foreign	41	104	23
	-----	-----	-----
	\$ 37,812	\$ 33,755	\$ 29,613
	=====	=====	=====

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

The following is a reconciliation of the federal tax calculated at the statutory rate of 35% to the actual income taxes provided (in thousands):

	Year Ended June 30,		
	2006	2005	2004
Computed expected federal income tax expense	\$ 38,907	\$ 34,960	\$ 28,889
State income taxes, net of federal benefit	1,527	1,164	1,026
Extraterritorial income tax benefit	(1,008)	(1,102)	(1,079)
Research and development tax credits	(91)	(239)	(268)
Qualified production activity deduction	(879)	--	--
Tax-exempt interest	(671)	(693)	(720)
(Decrease) increase in deferred tax valuation allowance	(99)	7	1,531
Other	126	(342)	234
	-----	-----	-----
	\$ 37,812	\$ 33,755	\$ 29,613
	=====	=====	=====

Temporary differences comprising deferred taxes on the consolidated balance sheets are as follows (in thousands):

	June 30,	
	2006	2005
Inventory reserves	\$ 4,332	\$ 3,791
Inventory costs capitalized	1,149	1,057
Unrealized profit on intercompany sales	579	483
Intangible asset amortization	4,797	5,918
Depreciation	1,190	742
Excess tax basis in equity investments	2,905	2,907
Foreign tax credit carryforward	522	619
Deferred compensation	482	--
Other	308	410
Valuation allowance	(3,427)	(3,526)
	-----	-----
Total deferred tax assets	12,837	12,401
Intangible asset amortization	(1,301)	--
Other	(777)	(410)
	-----	-----
Total deferred tax liabilities	(2,078)	(410)
	-----	-----
Net deferred tax assets	\$ 10,759	\$ 11,991
	=====	=====

A deferred tax valuation allowance is required when it is more likely than not that all or a portion of deferred tax assets will not be realized. The Company has provided a valuation allowance for the potential capital loss carryover resulting from the excess tax basis in equity investment and on the foreign tax credit carryforward. The Company believes that it is more likely than not that the recorded deferred tax asset, net of valuation allowance, will be realized.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$66.1 million as of June 30, 2006. Deferred taxes have not been provided on such undistributed earnings, as it is the Company's intent to indefinitely reinvest the undistributed earnings in the foreign operations.

### I. Earnings per share:

The number of shares used to calculate earnings per share are as follows



# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

(in thousands, except per share data):

	Year Ended June 30,		
	2006	2005	2004
Net earnings used for basic and diluted earnings per share	\$ 73,351	\$ 66,132	\$ 52,928
Weighted average shares used in basic computation	39,049	40,359	41,046
Dilutive effect of forward contract	250	139	--
Dilutive stock options and warrants	295	422	651
Weighted average shares used in diluted computation	39,594	40,920	41,697
Basic EPS	\$ 1.88	\$ 1.64	\$ 1.29
Diluted EPS	\$ 1.85	\$ 1.62	\$ 1.27

The dilutive effect of stock options and warrants in the above table excludes all options for which the exercise price was higher than the average market price for the period. The number of potentially dilutive option shares excluded from the calculation were 7,000, 208,000 and 352,000 at June 30, 2006, 2005 and 2004, respectively.

## J. Segment information:

The Company has three reportable operating segments based on the nature of products and geographic location: biotechnology, R&D Systems Europe and hematology. The biotechnology segment consists of R&D Systems' Biotechnology Division, Fortron Bio Science, Inc. and BiosPacific, Inc., which develop, manufacture and sell biotechnology research and diagnostic products world-wide. R&D Systems Europe distributes Biotechnology Division products throughout Europe. The hematology segment develops and manufactures hematology controls and calibrators for sale world-wide. No customer accounted for more than 10% of the Company's net sales for the years ended June 30, 2006, 2005 and 2004.

38

The accounting policies of the segments are the same as those described in Note A. In evaluating segment performance, management focuses on sales and earnings before taxes.

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

	Year Ended June 30,		
	2006	2005	2004
External sales			
Biotechnology	\$134,424	\$111,153	\$ 99,382
R&D Systems Europe	52,954	51,315	44,397
Hematology	15,239	16,184	17,478
Total external sales	202,617	178,652	161,257
Intersegment sales - Biotechnology	23,957	21,590	19,686
Total sales	226,574	200,242	180,943
Less intersegment sales	(23,957)	(21,590)	(19,686)

Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Total consolidated net sales	\$202,617	\$178,652	\$161,257
Earnings before taxes			
Biotechnology	\$ 89,687	\$ 76,234	\$ 66,630
R&D Systems Europe	21,152	21,585	16,825
Hematology	4,506	5,168	5,901
Corporate and other	(4,182)	(3,100)	(6,815)
Total earnings before taxes	\$111,163	\$ 99,887	\$ 82,541
Assets			
Biotechnology	\$194,206	\$133,518	\$181,610
R&D Systems Europe	79,533	64,254	49,512
Hematology	17,727	16,656	22,093
Corporate and other	82,286	82,820	73,554
Intersegment eliminations	(3,240)	(1,985)	(1,309)
Total assets	\$370,512	\$295,263	\$325,460
Depreciation and amortization			
Biotechnology	\$ 3,952	\$ 3,163	\$ 3,632
R&D Systems Europe	240	274	275
Hematology	305	330	346
Corporate and other	2,458	2,341	1,787
Total depreciation and amortization	\$ 6,955	\$ 6,108	\$ 6,040
Capital purchases			
Biotechnology	\$ 3,076	\$ 1,893	\$ 2,786
R&D Systems Europe	304	253	144
Hematology	190	212	46
Corporate and other	1,033	9,052	734
Total capital purchases	\$ 4,603	\$ 11,410	\$ 3,710

Corporate and other reconciling items include the results of unallocated corporate expenses and assets, the operations of the Company's equity investments in ChemoCentryx, Inc., Discovery Genomics, Inc. and Hemerus, and the impairment loss on the equity investment in fiscal 2004.

Following is financial information relating to geographic areas (in thousands):

	Year Ended June 30,		
	2006	2005	2004
External sales			
United States	\$118,780	\$102,239	\$ 94,559
Other areas	83,837	76,413	66,698
Total external sales	\$202,617	\$178,652	\$161,257
Long-lived assets			
United States	\$120,383	\$102,984	\$ 97,229
Other areas	814	723	752
Total long-lived assets	\$121,197	\$103,707	\$ 97,981

External sales are attributed to countries based on the location of the

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

customer/distributor. Long-lived assets are comprised of land, buildings and improvements, equipment, deposits on real estate, goodwill and intangible assets.

### K. Benefit plans:

**Profit sharing plans:** The Company has Profit Sharing and Savings Plans for non-union U.S. employees, which conform to IRS provisions for 401(k) plans. The Company may make profit sharing contributions at the discretion of the Board of Directors. Operations have been charged for contributions to the plans of \$1.2 million, \$1.2 million and \$902,000 for the years ended June 30, 2006, 2005 and 2004, respectively. The Company operates a defined contribution pension plan for employees of R&D Systems Europe. Operations have been charged for contributions to the plan of \$128,000, \$113,000 and \$105,000 for the years ended June 30, 2006, 2005 and 2004, respectively.

**Stock bonus plans:** The Company also has Stock Bonus Plans covering non-union employees. The Company may make contributions to the plans in the form of common stock, cash or other property at the discretion of the Board of Directors. The Company purchases its common stock at market value for contribution to the plans. For the years ended June 30, 2006, 2005 and 2004 operations have been charged for contributions to the plan \$1.2 million, \$1.3 million and \$947,000, respectively.

39

**Performance incentive program:** Under certain employment agreements with executive officers, the Company recorded bonuses of \$125,000, \$90,000 and \$66,000 for the years ended June 30, 2006, 2005 and 2004, respectively. In addition, options for 1,745, 26,631 and 41,758 shares of common stock were granted to the executive officers during fiscal 2006, 2005 and 2004, respectively.

### L. Supplemental disclosures of cash flow information and noncash investing and financing activities:

The Company paid and received cash for the following items (in thousands):

	Year Ended June 30,		
	2006	2005	2004
	-----	-----	-----
Income taxes paid	\$ 27,731	\$ 26,794	\$ 25,979
Interest paid	947	807	672
Interest received	3,357	6,756	3,474

In fiscal 2006, stock options for 2,500 shares of common stock were exercised by the surrender of 1,517 shares of common stock at fair market value of \$91,000. In fiscal 2005, stock options for 17,106 shares of common stock were exercised by the surrender of 4,139 shares of common stock at fair market value of \$167,000. In fiscal 2004, stock options for 1,000 shares of common stock were exercised by the surrender of 204 shares of common stock at fair market value of \$9,000.

In fiscal 2005, 17,411 shares of common stock which had been purchased in fiscal 2003 at a cost of \$396,000 were contributed to the Company's Stock Bonus Plans in partial settlement of the fiscal 2004 accrued liability balance. The increase in market value of the stock at the time of the contribution of \$308,000 was included in additional paid-in capital.

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

M. Accumulated other comprehensive income:

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

	2006	June 30, 2005	2004
	-----	-----	-----
Foreign currency translation adjustments	\$ 6,521	\$ 3,983	\$ 5,447
Unrealized losses on available- for-sale investments	(836)	(353)	(122)
	-----	-----	-----
	\$ 5,685	\$ 3,630	\$ 5,325
	=====	=====	=====

40

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders TECHNE Corporation  
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of TECHNE Corporation and Subsidiaries (the Company) as of June 30, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TECHNE Corporation and Subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

As disclosed in Note A to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123 (Revised 2004), Share-Based Payment, in fiscal 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of TECHNE Corporation's internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 28, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

control over financial reporting.

/s/ KPMG LLP

Minneapolis, Minnesota  
August 28, 2006

41

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure 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 (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 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.

#### Changes in Internal Controls

There was no change in the Company's internal control over financial reporting 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.

#### Management's Annual Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). As of June 30, 2006, management, under the supervision of the chief executive officer and chief financial officer, assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control--Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of June 30, 2006.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2006. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

the Company's internal control over financial reporting as of June 30, 2006, follows.

42

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
TECHNE Corporation

We have audited management's assessment, included in the accompanying report entitled "Management's Annual Report on Internal Control Over Financial Reporting", that TECHNE Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). TECHNE Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that TECHNE Corporation and subsidiaries maintained effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, TECHNE Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TECHNE Corporation and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2006, and our report dated August 28, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Minneapolis, Minnesota  
August 28, 2006

43

### ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Other than "Executive Officers of the Company" which is set forth at the end of Part I of this Form 10-K, the information required by Item 10 is incorporated herein by reference to the sections entitled "Election of Directors", "Committees and Meetings of the Board of Directors", "Code of Ethics and Business Conduct and Financial Fraud Hotline" and "Compliance With Section 16(a) of the Securities Exchange Act" in the Company's proxy statement for its 2006 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the fiscal year for which this report is filed.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section entitled "Executive Compensation" in the Company's proxy statement for its 2006 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the fiscal year for which this report is filed.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information about the Company's equity compensation plans at June 30, 2006 is as follows (shares in thousands):

# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by Stockholders (1)	421	\$38.89	3,358
Equity compensation plans not approved by Stockholders	--	--	--

(1) Includes the Company's 1997 Incentive Stock Option Plan and 1998 Nonqualified Stock Option Plans.

The remaining information required by Item 12 is incorporated by reference to the sections entitled "Principal Shareholders" and "Management Shareholdings" in the Company's proxy statement for its 2006 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the fiscal year for which this report is filed.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

44

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 16 is incorporated herein by reference to the section entitled "Audit Fees" in the Company's proxy statement for its 2006 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the fiscal year for which this report is filed.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### A. (1) List of Financial Statements.

The following Consolidated Financial Statements are filed as part of this Report:

Consolidated Statements of Earnings for the Years Ended  
June 30, 2006, 2005 and 2004

Consolidated Balance Sheets as of June 30, 2006 and 2005

Consolidated Statements of Stockholders' Equity and Comprehensive



# Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Income for the Years Ended June 30, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the Years Ended  
June 30, 2006, 2005 and 2004

Notes to Consolidated Financial Statements for the Years  
Ended June 30, 2006, 2005 and 2004

Report of Independent Registered Public Accounting Firm

## (2) Financial Statement Schedules.

### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNT YEARS ENDED JUNE 30, 2006, 2005 AND 2004 (in 000's)

	Balance at Beginning of Year -----	Provision Charged/ (Credited) to Income -----	Accounts Written Off -----	Balance at End of Year -----
Year ended June 30, 2006:				
Allowance for doubtful accounts	\$118	\$28	\$ (26)	\$120
Year ended June 30, 2005:				
Allowance for doubtful accounts	233	23	(138)	118
Year ended June 30, 2004:				
Allowance for doubtful accounts	268	76	(111)	233

45

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE

Board of Directors and Stockholders  
TECHNE Corporation  
Minneapolis, Minnesota

Under the date of August 28, 2006, we reported on the consolidated balance sheets of TECHNE Corporation and Subsidiaries as of June 30, 2006 and 2005 and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2006 in the annual report on Form 10-K for fiscal 2006. In connection with our audit of the aforementioned financial statements, we also have audited the related financial statement schedule in the annual report on Form 10-K for fiscal 2006 as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Minneapolis, Minnesota  
August 28, 2006

(3) Exhibits.

See Exhibit Index immediately following signature page.

46

### SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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

Date: August 28, 2006

/s/ Thomas E. Oland

-----  
By: Thomas E. Oland  
Its: President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date

Signature and Title

----

-----

August 28, 2006

/s/ Thomas E. Oland

-----  
Thomas E. Oland  
Chairman of the Board, President,  
Treasurer, Chief Executive Officer  
and Director

August 28, 2006

/s/ Roger C. Lucas, Ph.D.

-----  
Dr. Roger C. Lucas  
Vice Chairman and Director

August 28, 2006

/s/ Howard V. O'Connell

-----  
Howard V. O'Connell, Director

August 28, 2006

/s/ G. Arthur Herbert

-----  
G. Arthur Herbert, Director

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

August 28, 2006	/s/ Randolph C. Steer, Ph.D., M.D. ----- Dr. Randolph C. Steer, Director
August 28, 2006	/s/ Robert V. Baumgartner ----- Robert V. Baumgartner, Director
August 28, 2006	/s/ Charles A. Dinarello, M.D. ----- Dr. Charles A. Dinarello, Director
August 28, 2006	/s/ Gregory J. Melsen ----- Gregory J. Melsen, Chief Financial Officer

47

### EXHIBIT INDEX for Form 10-K for the 2006 Fiscal Year

Exhibit Number	Description
-----	-----
3.1	Restated Articles of Incorporation of Company, as amended to date--incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q for the quarter ended September 30, 2000*
3.2	Restated Bylaws, as amended to date--incorporated by reference to Exhibit 3.2 of the Company's Form 10, dated October 27, 1988*
10.1**	Employee Agreement with Respect to Inventions, Proprietary Information, and Unfair Competition with Thomas E. Oland--incorporated by reference to Exhibit 10.2 of the Company's Form 10, dated October 27, 1988*
10.2**	Company's Profit Sharing Plan--incorporated by reference to Exhibit 10.6 of the Company's Form 10, dated October 27, 1988*
10.3**	Company's Stock Bonus Plan--incorporated by reference to Exhibit 10.7 of the Company's Form 10, dated October 27, 1988*
10.4**	1987 Incentive Stock Option Plan--incorporated by reference to Exhibit 10.14 of the Company's Form 10, dated October 27, 1988*
10.5	Form of Stock Option Agreement for 1987 Incentive Stock Option Plan--incorporated by reference to Exhibit 10.15 of the Company's Form 10, dated October 27, 1988*
10.6**	1988 Nonqualified Stock Option Plan--incorporated by reference to Exhibit 10.16 of the Company's Form 10, dated October 27, 1988*
10.7	Form of Stock Option Agreement for Nonqualified Stock Option Plan--incorporated by reference to Exhibit 10.17 of the Company's Form 10, dated October 27, 1988*
10.8**	Employment Agreement, dated March 6, 1996, with Monica Tsang--incorporated by reference to Exhibit 10.25 of the Company's Form 10-K for the year ended June 30, 1996*

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

- 10.9\*\* 1997 Incentive Stock Option Plan--incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended June 30, 1997\*
- 10.10 Form of Stock Option Agreement for 1997 Incentive Stock Option Plan--incorporated by reference to Exhibit 10.25 of the Company's Form 10-K for the year ended June 30, 1997\*
- 10.11 Investment Agreement between ChemoCentryx, Inc. and Techne Corporation dated November 18, 1997--incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended December 31, 1997\*
- 10.12\*\* 1998 Nonqualified Stock Option Plan--incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended September 30, 1998\*
- 10.13 Form of Stock Option Agreement for 1998 Nonqualified Stock Option Plan--incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended September 30, 1998\*

-----

\*Incorporated by reference; SEC File No. 0-17272

\*\*Management contract or compensatory plan or arrangement

48

### Exhibit

Number Description

-----

- 10.14\*\* Extension, dated March 31, 1999, to Employment Agreement with Monica Tsang, Ph.D.--incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended March 31, 1999\*
- 10.15\*\* Extension, dated March 31, 1999, to Employment Agreement with Marcel Veronneau--incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended March 31, 1999\*
- 10.16 Combination Mortgage, Security Agreement and Fixture Financing Statement dated July 1, 1999 between the Company and TCF National Bank Minnesota (TCF)--incorporated by reference to Exhibit 10.36 of the Company's Form 10-K for the year ended June 30, 1999\*
- 10.17 Promissory Note from the Company to TCF dated July 1, 1999 in the principal amount of \$20,400,000-- incorporated by reference to Exhibit 10.37 of the Company's Form 10-K for the year ended June 30, 1999\*
- 10.18 Investment Agreement between the Company and Discovery Genomics, Inc. dated August 2, 2001--incorporated by reference to Exhibit 10.30 of the Company's for 10-K for the year ended June 30, 2001.
- 10.19 Research and License Agreement between R&D Systems and Discovery Genomics, Inc. dated August 2, 2001--incorporated by reference to Exhibit 10.31 of the Company's 10-K for the year ended June 30, 2001.
- 10.20 Investors Rights Agreement dated February 2, 2001 among ChemoCentryx, Inc., the Company and certain investors amending the Investment Agreement between ChemoCentryx, Inc. and the Company dated November 18, 1997--incorporated by reference to Exhibit 10.32 of the Company's 10-K for the year ended June 30, 2001.

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

- 10.21 Letter Agreement dated February 2, 2001 between ChemoCentryx, Inc. and the Company amending the terms of warrants held by the Company--incorporated by reference to Exhibit 10.33 of the Company's 10-K for the year ended June 30, 2001.
- 10.22\*\* Extension, dated August 28, 2001, to Employment Agreement with Monica Tsang, Ph.D.--incorporated by reference to Exhibit 10.35 of the Company's 10-K for the year ended June 30, 2001.
- 10.23\*\* Extension, dated August 28, 2001, to Employment Agreement with Marcel Veronneau--incorporated by reference to Exhibit 10.36 of the Company's 10-K for the year ended June 30, 2001.
- 10.24 Correction/Amendment to Investment Agreement dated April 23, 2002, between Techne Corporation and Discovery Genomics, Inc.--incorporated by reference to Exhibit 10.39 of the Company's 10-K for the year ended June 30, 2002.
- 10.25 Form of Indemnification Agreement entered into with each director and executive officer of the Registrant incorporated by reference to Exhibit 10.1 of the Company's 10-Q for the quarter ended December 31, 2002.
- 10.26\*\* Extension, dated June 30, 2004, to Employment Agreement with Monica Tsang, Ph.D.--incorporated by reference to Exhibit 10.41 of the Company's 10-K for the year ended June 30, 2004.
- 10.27\*\* Extension, dated June 30, 2004, to Employment Agreement with Marcel Veronneau.--incorporated by reference to Exhibit 10.42 of the Company's 10-K for the year ended June 30, 2004.
- 10.28\*\* Employment Agreement, dated December 17, 2004, with Gregory J. Melsen--incorporated by reference to Exhibit 10.1 of the Company's 8-K dated December 17, 2004.

-----

\*Incorporated by reference; SEC File No. 0-17272

\*\*Management contract or compensatory plan or arrangement

49

### Exhibit

Number	Description
-----	-----

- |         |  |
|---------|--|
| 10.29   | Accelerated Share Repurchase Agreement--incorporated by reference to Exhibit 10.1 of the Company's 10-Q for the quarter ended March 31, 2005.    |
| 10.30** | Description of Officer's Incentive Bonus Plan--incorporated by reference to Exhibit 10.30 of the Company's 10-K for the year ended June 30, 2005 |
| 10.31   | Amended and Restated Investors Rights Agreement dated June 13, 2006 among ChemoCentryx, Inc and the Company and certain investors                |
| 21      | Subsidiaries of the Company:   |

Name	State/Country of Incorporation
----	-----

## Edgar Filing: TECHNE CORP /MN/ - Form 10-K

Research and Diagnostic Systems, Inc.	Minnesota
BiosPacific, Inc.	Minnesota
Fortron Bio Science, Inc.	Minnesota
R&D Systems Europe Ltd.	Great Britain
R&D Systems GmbH	Germany

23 Consent of KPMG LLP, Independent Registered Public Accounting Firm

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

-----

\*Incorporated by reference; SEC File No. 0-17272

\*\*Management contract or compensatory plan or arrangement