CULLEN FROST BANKERS INC
Form 10-Q
April 25, 2007

United States Securities and Exchange Commission
Washington, D.C. 20549

For a printer-friendly version, click here.

Form 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2007

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: 0-7275

Cullen/Frost Bankers, Inc.
(Exact name of registrant as specified in its charter)

Texas	74-1751768
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 W. Houston Street, San Antonio, Texas	78205
(Address of principal executive offices)	(Zip code)

(210) 220-4011
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [**X**] No [ ]

Indicate by check mark whether the registrant 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 Exchange Act. (Check one):

Large accelerated filer [**X**]   Accelerated filer [ ]   Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [**X**]

As of April 20, 2007, there were 60,009,952 shares of the registrant's Common Stock, $.01 par value, outstanding.

Cullen/Frost Bankers, Inc.
Quarterly Report on Form 10-Q
March 31, 2007

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Part I. Financial Information
Item 1. Financial Statements (Unaudited)

Cullen/Frost Bankers, Inc.
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2007	2006
Interest income:		
Loans, including fees	$142,761	$114,220
Securities:		
Taxable	36,829	33,435
Tax-exempt	3,307	2,744
Interest-bearing deposits	67	57
Federal funds sold and resell agreements	9,618	6,384
Total interest income	192,582	156,840
Interest expense:		

Deposits	49,086	31,108
Federal funds purchased and repurchase agreements	8,221	6,526
Junior subordinated deferrable interest debentures	3,693	4,108
Subordinated notes payable and other borrowings	3,749	2,658
Total interest expense	64,749	44,400
Net interest income	127,833	112,440
Provision for possible loan losses	2,650	3,934
Net interest income after provision for possible loan losses	125,183	108,506
Non-interest income:		
Trust fees	16,907	15,754
Service charges on deposit accounts	18,831	19,107
Insurance commissions and fees	10,628	8,975
Other charges, commissions and fees	6,858	6,187
Net gain (loss) on securities transactions	-	(1)
Other	13,848	11,009
Total non-interest income	67,072	61,031
Non-interest expense:		
Salaries and wages	51,714	46,106
Employee benefits	14,426	13,176
Net occupancy	9,634	8,433
Furniture and equipment	6,928	6,302
Intangible amortization	2,326	1,306
Other	37,059	25,146
Total non-interest expense	122,087	100,469
Income before income taxes	70,168	69,068
Income taxes	22,889	22,391
Net income	$ 47,279	$ 46,677
Earnings per common share:		
Basic	$ 0.79	$ 0.86
Diluted	0.78	0.83

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	March 31, 2007	December 31, 2006	March 31, 2006
Assets:			
Cash and due from banks	$ 608,787	$ 707,683	$ 535,112
Interest-bearing deposits	4,227	1,677	2,829
Federal funds sold and resell agreements	803,125	735,225	795,275
Total cash and cash equivalents	1,416,139	1,444,585	1,333,216
Securities held to maturity, at amortized cost	9,607	10,096	11,960
Securities available for sale, at estimated fair value	3,116,212	3,330,953	2,971,686
Trading account securities	12,455	9,406	6,907
Loans, net of unearned discounts	7,459,256	7,373,384	6,511,258
Less: Allowance for possible loan losses	(96,144)	(96,085)	(84,142)
Net loans	7,363,112	7,277,299	6,427,116
Premises and equipment, net	217,315	219,533	196,287
Goodwill	527,947	524,117	245,061
Other intangible assets, net	36,153	38,480	23,769
Cash surrender value of life insurance policies	112,880	111,742	108,549
Accrued interest receivable and other assets	364,569	257,978	254,618
Total assets	$ 13,176,389	$ 13,224,189	$ 11,579,169
Liabilities:			
Deposits:			
Non-interest-bearing demand deposits	$ 3,574,827	$ 3,699,701	$ 3,375,512
Interest-bearing deposits	6,705,623	6,688,208	5,916,871
Total deposits	10,280,450	10,387,909	9,292,383

Federal funds purchased and repurchase agreements	914,833	864,190	742,644
Subordinated notes payable and other borrowings	283,812	186,366	177,054
Junior subordinated deferrable interest debentures	139,177	242,270	229,898
Accrued interest payable and other liabilities	140,287	166,571	126,452
Total liabilities	11,758,559	11,847,306	10,568,431
Shareholders' Equity:			
Preferred stock, par value $0.01 per share; 10,000,000 shares authorized; none issued	-	-	-
Junior participating preferred stock, par value $0.01 per share; 250,000 shares authorized; none issued	-	-	-
Common stock, par value $0.01 per share; 210,000,000 shares authorized; 59,972,052 shares, 59,839,144 shares and 55,106,185 shares issued	600	598	551
Additional paid-in capital	555,427	548,117	292,431
Retained earnings	909,950	883,060	793,350
Accumulated other comprehensive income (loss), net of tax	(48,147)	(54,892)	(75,594)
Treasury stock, no shares, no shares and 7 shares, at cost	-	-	-
Total shareholders' equity	1,417,830	1,376,883	1,010,738
Total liabilities and shareholders' equity	$ 13,176,389	$ 13,224,189	$ 11,579,169

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except per share amounts)

Three Months Ended
March 31,

	2007	2006
Total shareholders' equity at beginning of period	$ 1,376,883	$ 982,236
Comprehensive income:		
Net income	47,279	46,677
Other comprehensive income (loss):		
Change in unrealized gain/loss on securities available for sale of $9,628 in 2007 and $(37,472) in 2006, net of reclassification adjustment of $1 in 2006 and tax effect of $3,370 in 2007 and $(13,115) in 2006	6,258	(24,356)
Change in funded status of defined benefit post-retirement benefit plans related to the amortization of actuarial losses to net periodic benefit cost of $664 in 2007, net of tax effect of $233	431	-
Change in accumulated gain/loss on effective cash flow hedging derivatives of $86 in 2007 and $(1,224) in 2006, net of tax effect of $30 in 2007 and $(428) in 2006	56	(796)
Total other comprehensive income (loss)	6,745	(25,152)
Total comprehensive income	54,024	21,525
Stock option exercises (132,949 shares in 2007 and 678,015 shares in 2006)	3,661	17,466
Stock compensation expense recognized in earnings	2,384	2,254
Tax benefits related to stock compensation, includes excess tax benefits of $1,231 in 2007 and $6,751 in 2006.	1,268	6,751
Purchase of treasury stock (41 shares in 2007 and 54,572 shares in 2006)	(2)	(2,970)
Cash dividends ($0.34 per share in 2007 and $0.30 per share in 2006)	(20,388)	(16,524)
Total shareholders' equity at end of period	$ 1,417,830	$ 1,010,738

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating Activities:		
Net income	$ 47,279	$ 46,677
Adjustments to reconcile net income to net cash from operating activities:		
Provision for possible loan losses	2,650	3,934
Deferred tax expense (benefit)	(740)	(1,537)
Accretion of loan discounts	(3,179)	(1,760)
Securities premium amortization (discount accretion), net	(62)	(221)
Net (gain) loss on securities transactions	-	1
Depreciation and amortization	7,386	6,034
Origination of loans held for sale	(32,461)	(27,331)
Proceeds from sales of loans held for sale	16,138	19,186
Net gain on sale of loans held for sale and other assets	(397)	(723)
Stock-based compensation expense	2,384	2,254
Tax benefits from stock-based compensation	37	-
Excess tax benefits from stock-based compensation	(1,231)	(6,751)
Earnings on life insurance policies	(1,138)	(930)
Net change in:		
Trading account securities	(3,049)	(690)
Accrued interest receivable and other assets	(110,971)	37,149
Accrued interest payable and other liabilities	(23,417)	(330,013)
Net cash from operating activities	(100,771)	(254,721)
Investing Activities:		
Securities held to maturity:		
Maturities, calls and principal repayments	488	738
Securities available for sale:		
Purchases	(1,594,700)	(4,003,743)
Sales	511	8,689
Maturities, calls and principal repayments	1,818,621	4,113,565
Net change in loans	(69,506)	(129,676)
Net cash paid in acquisitions	(1,550)	(60,543)
Proceeds from sales of premises and equipment	1,391	108

Purchases of premises and equipment	(5,981)	(6,460)
Proceeds from sales of repossessed properties	2,213	69
Net cash from investing activities	151,487	(77,253)
Financing Activities:		
Net change in deposits	(107,459)	(235,594)
Net change in short-term borrowings	50,643	(3,804)
Proceeds from notes payable	98,799	-
Principal payments on notes payable and other borrowings	(105,647)	(13,563)
Proceeds from stock option exercises	3,661	17,466
Excess tax benefits from stock-based compensation arrangements	1,231	6,751
Purchase of treasury stock	(2)	(2,970)
Cash dividends paid	(20,388)	(16,524)
Net cash from financing activities	(79,162)	(248,238)
Net change in cash and cash equivalents	(28,446)	(580,212)
Cash and equivalents at beginning of period	1,444,585	1,913,428
Cash and equivalents at end of period	$ 1,416,139	$ 1,333,216
Supplemental disclosures:		
Cash paid for interest	$ 48,364	$ 47,920
Cash paid for income taxes	-	1,794

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.
Notes to Consolidated Financial Statements

(Table amounts are stated in thousands, except for per share amounts)

Note 1 - Significant Accounting Policies

Nature of Operations. Cullen/Frost Bankers, Inc. (Cullen/Frost) is a financial holding company and a bank holding company headquartered in San Antonio, Texas that provides, through its subsidiaries, a broad array of products and services throughout numerous Texas markets, including commercial and consumer banking services, as well as trust and investment management, investment banking, insurance, brokerage, leasing, asset-based lending, treasury management and item processing services.

Basis of Presentation. The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of Cullen/Frost and all other entities in which Cullen/Frost has a controlling financial interest (collectively referred to as the "Corporation"). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies the Corporation follows conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry.

The consolidated financial statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Corporation's financial position and results of operations. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the Corporation's consolidated financial statements, and notes thereto, for the year ended December 31, 2006, included in the Corporation's Annual Report on Form 10-K filed with the SEC on February 2, 2007 (the "2006 Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for possible loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

Income Taxes. On January 1, 2007, the Corporation changed its accounting policy related to accounting for tax contingencies in connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109." See Note 15 - Income Taxes for additional information.

Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of the Corporation's comprehensive income include the after tax effect of changes in the net unrealized gain/loss on securities available for sale, changes in the funded status of defined benefit post-retirement benefit plans and changes in the accumulated gain/loss on effective cash flow hedging instruments. Comprehensive income for the three months ended March 31, 2007 and 2006 is reported in the accompanying consolidated statements of changes in shareholders' equity.

Reclassifications. Certain items in prior financial statements have been reclassified to conform to the current presentation.

Note 2 - Mergers and Acquisitions

The acquisitions described below were accounted for as purchase transactions with all cash consideration funded through internal sources. The purchase price has been allocated to the underlying assets and liabilities based on estimated fair values at the date of acquisition. The operating results of the acquired companies are included with the Corporation's results of operations since their respective dates of acquisition.

Texas Community Bancshares, Inc.

On February 9, 2006, the Corporation acquired Texas Community Bancshares, Inc. including its subsidiary, Texas Community Bank and Trust, N.A. ("TCB"), a privately-held bank holding company and bank located in Dallas, Texas. The Corporation purchased all of the outstanding shares of TCB for approximately $32.1 million. The purchase price includes $31.1 million in cash and $1.0 million in acquisition-related costs. Upon completion of the acquisition, TCB was fully integrated into Cullen/Frost and Frost Bank. As of March 31, 2007, the Corporation had a liability totaling $705 thousand related to TCB shares that have not yet been tendered for payment.

Alamo Corporation of Texas. On February 28, 2006, the Corporation acquired Alamo Corporation of Texas ("Alamo") including its subsidiary, Alamo Bank of Texas, a privately-held bank holding company and bank located in the Rio Grande Valley of Texas. The Corporation purchased all of the outstanding shares of Alamo for approximately $88.0 million. The purchase price includes $87.0 million in cash and $1.0 million in acquisition-related costs. Alamo was fully integrated into Frost Bank during the second quarter of 2006.

Summit Bancshares, Inc. On December 8, 2006, the Corporation acquired Summit Bancshares, Inc. including its subsidiary, Summit Bank, N.A. ("Summit"), a publicly-held bank holding company and bank located in Fort Worth, Texas. The Corporation purchased all of the outstanding shares of Summit for approximately $370.1 million. The total purchase price includes $215.3 million of the Corporation's common stock (3.8 million shares), $149.7 million in cash and approximately $5.1 million in acquisition-related costs. Upon completion of the acquisition, Summit was fully integrated into Frost Bank.

Note 3 - Securities Held to Maturity and Securities Available for Sale

A summary of the amortized cost and estimated fair value of securities, excluding trading securities, is presented below.

	March 31, 2007				December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Held to Maturity:								
U.S. government agencies	$ 8,607	$ 111	$ 3	$ 8,715	$ 9,096	$ 87	$ 14	$ 9,169

and corporations								
Other	1,000	-	9	991	1,000	-	11	989
Total	$ 9,607	$ 111	$ 12	$ 9,706	$ 10,096	$ 87	$ 25	$ 10,158
Securities Available for Sale:								
U.S. Treasury	$ -	$ -	$ -	$ -	$ 89,954	$ 1	$ 272	$ 89,683
U.S. government agencies and corporations	2,754,378	5,887	39,496	2,720,769	2,946,212	5,507	49,110	2,902,609
States and political subdivisions	352,920	2,604	1,867	353,657	309,002	2,672	1,298	310,376
Other	41,786	-	-	41,786	28,285	-	-	28,285
Total	$ 3,149,084	$ 8,491	$ 41,363	$ 3,116,212	$ 3,373,453	$ 8,180	$ 50,680	$ 3,330,953

Securities with a fair value totaling $2.0 billion at March 31, 2007 and $2.1 billion at December 31, 2006 were pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law.

Sales of securities available for sale were as follows:

	Three Months Ended March 31,	
	2007	2006
Proceeds from sales	$ 511	$ 8,689
Gross realized gains	-	117
Gross realized losses	-	118

As of March 31, 2007, securities, with unrealized losses segregated by length of impairment, were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses

Held to Maturity						
U.S. government agencies and corporations	$ -	$ -	$ 782	$ 3	$ 782	$ 3
Other	-	-	991	9	991	9
Total	$ -	$ -	$ 1,773	$ 12	$ 1,773	$ 12
Available for Sale						
U.S. government agencies and corporations	$ 250,357	$ 555	$ 1,915,645	$ 38,941	$ 2,166,002	$ 39,496
States and political subdivisions	105,148	1,161	34,938	706	140,086	1,867
Total	$ 355,505	$ 1,716	$ 1,950,583	$ 39,647	$ 2,306,088	$ 41,363

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Corporation will receive full value for the securities. Furthermore, management also has the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2007, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Corporation's consolidated income statement.

Note 4 - Loans

Loans were as follows:

	March 31, 2007	Percentage of Total	December 31, 2006	Percentage of Total	March 31, 2006	Percentage of Total

Commercial and industrial:						
Commercial	$ 3,291,148	44.1 %	$ 3,229,570	43.8 %	$ 2,756,506	42.3 %
Leases	175,372	2.4	174,075	2.4	158,881	2.4
Asset-based	35,708	0.5	33,856	0.4	41,948	0.7
Total commercial and industrial	3,502,228	47.0	3,437,501	46.6	2,957,335	45.4
Real estate:						
Construction:						
Commercial	659,842	8.8	649,140	8.8	610,084	9.4
Consumer	108,995	1.5	114,142	1.5	116,443	1.8
Land:						
Commercial	419,218	5.6	407,055	5.5	330,321	5.1
Consumer	4,872	0.1	5,394	0.1	13,341	0.2
Commercial mortgages	1,772,347	23.7	1,766,469	24.0	1,540,404	23.6
1-4 family residential mortgages	116,508	1.6	125,294	1.7	124,367	1.9
Home equity and other consumer	509,135	6.8	508,574	6.9	481,180	7.4
Total real estate	3,590,917	48.1	3,576,068	48.5	3,216,140	49.4
Consumer:						
Indirect	3,075	-	3,475	0.1	2,614	0.1
Student loans held for sale	64,748	0.9	47,335	0.6	60,106	0.9
Other	305,708	4.1	310,752	4.2	273,880	4.2
Other	22,083	0.3	27,703	0.4	22,301	0.3
Unearned discounts	(29,503)	(0.4)	(29,450)	(0.4)	(21,118)	(0.3)
Total loans	$ 7,459,256	100.0 %	$ 7,373,384	100.0 %	$ 6,511,258	100.0 %

Concentrations of Credit. Most of the Corporation's lending activity occurs within the State of Texas, including the four largest metropolitan areas of Austin, Dallas/Ft. Worth, Houston and San Antonio as well as other markets. The majority of the Corporation's loan portfolio consists of commercial and industrial and commercial real estate loans. As of March 31, 2007, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

Student Loans Held for Sale. Student loans are primarily originated for resale on the secondary market. These loans, which are generally sold on a non-recourse basis, are carried at the lower of cost or market on an aggregate basis.

Foreign Loans. The Corporation has U.S. dollar denominated loans and commitments to borrowers in Mexico. The outstanding balance of these loans and the unfunded amounts available under these commitments were not significant at March 31, 2007 or December 31, 2006.

Non-Performing/Past Due Loans. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations, which typically occurs when principal or interest payments are more than 90 days past due. Non-accrual loans totaled $46.8 million at March 31, 2007 and $52.2 million at December 31, 2006. Accruing loans past due more than 90 days totaled $9.1 million at March 31, 2007 and $10.9 million at December 31, 2006.

Impaired Loans. Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans were as follows:

	March 31, 2007	December 31, 2006	March 31, 2006
Balance of impaired loans with no allocated allowance	$ 5,824	$ 5,933	$ 10,027
Balance of impaired loans with an allocated allowance	34,132	38,254	17,568
Total recorded investment in impaired loans	$ 39,956	$ 44,187	$ 27,595
Amount of the allowance allocated to impaired loans	$ 8,170	$ 8,729	$ 9,102

The impaired loans included in the table above were primarily comprised of collateral dependent commercial loans. The average recorded investment in impaired loans was $42.1 million during the three months ended March 31, 2007 and $26.7 million for the three months ended March 31, 2006. No interest income was recognized on these loans subsequent to their classification as impaired.

Note 5 - Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Corporation's control, including the performance of the Corporation's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Activity in the allowance for possible loan losses was as follows:

	Three Months Ended March 31,	
	2007	2006
Balance at the beginning of the period	$ 96,085	$ 80,325
Provision for possible loan losses	2,650	3,934
Allowance for possible loan losses acquired	-	2,373
Net charge-offs:		
Losses charged to the allowance	(4,000)	(4,265)
Recoveries of loans previously charged off	1,409	1,775
Net charge-offs	(2,591)	(2,490)
Balance at the end of the period	$ 96,144	$ 84,142

Note 6 - Goodwill and Other Intangible Assets

Goodwill. Goodwill totaled $527.9 million at March 31, 2007 and $524.1 million at December 31, 2006. During the first quarter of 2007, as a result of a reallocation of the purchase price based on additional information related to the valuation of certain assets acquired and liabilities assumed, goodwill recorded in connection with the acquisition of TCB was increased $83 thousand, goodwill recorded in connection with the acquisition of Alamo was increased $12 thousand and goodwill recorded in connection with the acquisition of Summit was increased $3.7 million. See Note 2 - Mergers and Acquisitions.

Other Intangible Assets. Other intangible assets totaled $36.2 million at March 31, 2007 including $33.7 million related to core deposits, $1.8 million related to customer relationships and $724 thousand related to non-compete agreements. Other intangible assets totaled $38.5 million at December 31, 2006 including $35.8 million related to core deposits, $1.9 million related to non-compete agreements and $814 thousand related to customer relationships.

Amortization expense related to intangible assets totaled $2.3 million and $1.3 million during the three months ended March 31, 2007 and 2006. The estimated aggregate future amortization expense for intangible assets remaining as of March 31, 2007 is as follows:

Remainder of 2007	$ 6,502
2008	7,268

2009	5,734
2010	4,483
2011	3,737
Thereafter	8,429
	$ 36,153

Note 7 - Deposits

Deposits were as follows:

	March 31, 2007	Percentage of Total	December 31, 2006	Percentage of Total	March 31, 2006	Percentage of Total
Non-interest-bearing demand deposits:						
Commercial and individual	$ 3,259,106	31.7 %	$3,384,232	32.6 %	$3,074,277	33.1 %
Correspondent banks	260,939	2.6	237,463	2.3	254,285	2.7
Public funds	54,782	0.5	78,006	0.7	46,950	0.5
Total non-interest-bearing demand deposits	3,574,827	34.8	3,699,701	35.6	3,375,512	36.3
Interest-bearing deposits:						
Private accounts:						
Savings and interest checking	1,394,418	13.6	1,470,792	14.2	1,331,719	14.3
Money market accounts	3,453,355	33.6	3,393,961	32.7	3,019,832	32.5
Time accounts under $100,000	604,848	5.9	612,466	5.9	503,040	5.4
Time accounts of $100,000 or more	766,191	7.4	791,699	7.6	610,837	6.6
Public funds	486,811	4.7	419,290	4.0	451,443	4.9
Total interest-bearing deposits	6,705,623	65.2	6,688,208	64.4	5,916,871	63.7
Total deposits	$ 10,280,450	100.0 %	$10,387,909	100.0 %	$9,292,383	100.0 %

At March 31, 2007 and December 31, 2006, interest-bearing public funds deposits included $92.1 million and $127.0 million in savings and interest checking accounts, $101.8 million and $97.8 million in money market accounts, $5.7 million and $6.6 million in time accounts under $100 thousand and $287.2 million and $187.9 million in time accounts of $100 thousand or more.

Deposits from foreign sources, primarily Mexico, totaled $682.0 million at March 31, 2007 and $711.0 million at December 31, 2006.

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Note 8 - Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk. In the normal course of business, the Corporation enters into various transactions, which, in accordance with generally accepted accounting principles are not included in its consolidated balance sheets. The Corporation enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Corporation minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Commitments to Extend Credit. The Corporation enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Corporation's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Commitments to extend credit totaled $4.1 billion and $4.0 billion at March 31, 2007 and December 31, 2006.

Standby Letters of Credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Corporation would be required to fund the commitment. The maximum potential amount of future payments the Corporation could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Corporation would be entitled to seek recovery from the customer. The Corporation's policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit totaled $247.3 million at March 31, 2007 and $254.8 million at December 31, 2006. The Corporation had an accrued liability totaling $1.4 million at March 31, 2007 and $1.2 million at December 31, 2006 related to potential obligations under these guarantees.

Lease Commitments. The Corporation leases certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled $4.4 million and $4.0 million for the three months ended March 31, 2007 and 2006. There has been no significant change in the future minimum lease payments payable by the Corporation since December 31, 2006. See the 2006 Form 10-K for information regarding these commitments.

Litigation. The Corporation is subject to various claims and legal actions that have arisen in the normal course of conducting business. Management does not expect the ultimate disposition of these matters to have a material adverse impact on the Corporation's financial statements.

Note 9 - Borrowed Funds

On February 15, 2007, the Corporation issued $100 million of 5.75% fixed-to-floating rate subordinated notes due February 15, 2017. The notes bear interest at the rate of 5.75% per annum, payable semi-annually on each

February 15 and August 15, commencing on August 15, 2007 until February 15, 2012. From and including February 15, 2012, to but excluding the maturity date or date of earlier redemption, the notes will bear interest at a rate per annum equal to three-month LIBOR for the related interest period plus 0.53%, payable quarterly on each February 15, May 15, August 15 and November 15, commencing May 15, 2012. The notes are subordinated in right of payment to all our senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of our subsidiaries. The notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. The notes mature on February 15, 2017. The Corporation may elect to redeem the notes (subject to regulatory approval), in whole or in part, on any interest payment date on or after February 15, 2012 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest.

On February 21, 2007, the Corporation redeemed $103.1 million of 8.42% junior subordinated deferrable interest debentures, Series A due February 1, 2027, held of record by Cullen/Frost Capital Trust I. As a result of the redemption, the Corporation incurred $5.3 million in expense during the first quarter of 2007 related to a prepayment penalty and the write-off of the unamortized debt issuance costs. Concurrently, the $100 million of 8.42% trust preferred securities issued by Cullen/Frost Capital Trust I were also redeemed.

Note 10 - Regulatory Matters

Regulatory Capital Requirements. Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

Cullen/Frost's and Frost Bank's Tier 1 capital consists of shareholders' equity excluding unrealized gains and losses on securities available for sale, the funded status of the Corporation's defined benefit post-retirement benefit plans, goodwill and other intangible assets. Tier 1 capital for Cullen/Frost also includes $135 million of trust preferred securities issued by unconsolidated subsidiary trusts. Cullen/Frost's and Frost Bank's total capital is comprised of Tier 1 capital for each entity plus $120 million of the Corporation's aggregate $150 million of 6.875% subordinated notes payable and a permissible portion of the allowance for possible loan losses. The $100 million of 5.75% fixed-to-floating rate subordinated notes issued during the first quarter of 2007 are not included in Tier 1 capital but are included in total capital of Cullen/Frost.

The Tier 1 and total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill and other intangible assets, allocated by risk weight category and certain off-balance-sheet items (primarily loan commitments). The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets.

Actual and required capital ratios for Cullen/Frost and Frost Bank were as follows:

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
March 31, 2007						
Total Capital to Risk-Weighted Assets						
Cullen/Frost	$ 1,363,628	13.54 %	$ 805,623	8.00 %	N/A	N/A
Frost Bank	1,260,643	12.53	805,043	8.00	$ 1,006,304	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Cullen/Frost	1,048,612	10.41	402,811	4.00	N/A	N/A
Frost Bank	1,044,499	10.38	402,521	4.00	603,782	6.00
Leverage Ratio						
Cullen/Frost	1,048,612	8.31	504,591	4.00	N/A	N/A
Frost Bank	1,044,499	8.29	504,134	4.00	630,167	5.00
December 31, 2006						
Total Capital to Risk-Weighted Assets						
Cullen/Frost	$ 1,332,744	13.43 %	$ 793,889	8.00 %	N/A	N/A
Frost Bank	1,234,583	12.45	793,555	8.00	$ 991,944	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Cullen/Frost	1,116,659	11.25	396,944	4.00	N/A	N/A

	1,018,498	10.27	396,778	4.00	595,166	6.00
Frost Bank						
Leverage Ratio						
	1,116,659	9.56	467,275	4.00	N/A	N/A
Cullen/Frost						
	1,018,498	8.73	466,835	4.00	583,543	5.00
Frost Bank						

Frost Bank has been notified by its regulator that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on Frost Bank's Tier 1, total capital, and leverage ratios. There have been no conditions or events since this notification that management believes would change Frost Bank's categorization as well capitalized under the aforementioned ratios.

Cullen/Frost is subject to the regulatory capital requirements administered by the Federal Reserve, while Frost Bank is subject to the regulatory capital requirements administered by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Regulatory authorities can initiate certain mandatory actions if Cullen/Frost or Frost Bank fail to meet the minimum capital requirements, which could have a direct material effect on the Corporation's financial statements. Management believes, as of March 31, 2007, that Cullen/Frost and Frost Bank meet all capital adequacy requirements to which they are subject.

Trust Preferred Securities. In accordance with the applicable accounting standard related to variable interest entities, the accounts of the Corporation's wholly owned subsidiary trusts, Cullen/Frost Capital Trust II, Alamo Corporation of Texas Trust I and Summit Bancshares Statutory Trust I have not been included in the Corporation's consolidated financial statements. However, the $135 million in trust preferred securities issued by these subsidiary trusts have been included in the Tier 1 capital of Cullen/Frost for regulatory capital purposes pursuant to guidance from the Federal Reserve Board.

Note 11 - Derivative Financial Instruments

The fair value of derivative positions outstanding is included in accrued interest receivable and other assets and accrued interest payable and other liabilities in the accompanying consolidated balance sheets and in the net change in each of these financial statement line items in the accompanying consolidated statements of cash flows.

Interest Rate Derivatives. The notional amounts and estimated fair values of interest rate derivative positions outstanding at March 31, 2007 and December 31, 2006 are presented in the following table. The estimated fair value of the interest rate floors on variable-rate loans are based on a quoted market price. Internal present value models are used to estimate the fair values of the other interest rate swaps and caps.

	March 31, 2007		December 31, 2006	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value

Interest rate derivatives designated as hedges of fair value:				
Commercial loan/lease interest rate swaps	$ 138,056	$ (13)	$ 15,337	$ 182
Interest rate derivatives designated as hedges of cash flows:				
Interest rate floors on variable-rate loans	1,300,000	412	1,300,000	366
Non-hedging interest rate derivatives:				
Commercial loan/lease interest rate swaps	209,241	3,607	200,910	3,320
Commercial loan/lease interest rate swaps	209,241	(3,607)	200,910	(3,320)
Commercial loan/lease interest rate caps	-	-	17,500	5
Commercial loan/lease interest rate caps	-	-	17,500	(5)
Commercial loan/lease interest rate floors	-	-	17,500	8
Commercial loan/lease interest rate floors	-	-	17,500	(8)

The weighted-average rates paid and received for interest rate swaps and the weighted-average strike rate for interest rate floors outstanding at March 31, 2007 were as follows:

	Weighted-Average		
	Interest Rate Paid	Interest Rate Received	Strike Rate
Interest rate swaps:			
Commercial loan/lease interest rate swaps	4.75 %	5.17 %	-
Non-hedging interest rate swaps	5.51	5.51	-
Interest rate caps and floors:			
Interest rate floors on variable-rate loans	-	-	6.0 %

Interest rate contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. These counterparties must have an investment grade credit rating and be approved by the Corporation's Asset/Liability Management Committee.

The Corporation's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. In such cases, collateral is required from the counterparties involved if the net value of the swaps exceeds a nominal amount considered to be immaterial. The Corporation's credit exposure, net of any collateral pledged, relating to interest rate swaps was approximately $3.0 million at March 31, 2007. This credit exposure was primarily related to bank customers. Collateral levels are monitored and adjusted on a monthly basis for changes in interest rate swap values.

For fair value hedges, the changes in the fair value of both the derivative hedging instrument and the hedged item are recorded in current earnings as other income or other expense. The extent that such changes in fair value do not offset represents hedge ineffectiveness. For cash flow hedges, the effective portion of the gain or loss on the derivative hedging instrument is reported in other comprehensive income, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is recorded in current earnings as other income or other expense. The amount of hedge ineffectiveness reported in earnings was not significant during any of the reported periods. The accumulated net after-tax loss on the floor contracts included in accumulated other comprehensive income totaled $1.1 million at March 31, 2007.

Commodity Derivatives. The Corporation enters into commodity swaps and option contracts to accommodate the business needs of its customers. Upon the origination of a commodity swap or option contract with a customer, the Corporation simultaneously enters into an offsetting contract with a third party to mitigate the exposure to fluctuations in commodity prices.

The notional amounts and estimated fair values of commodity derivative positions outstanding are presented in the following table. The estimated fair values are based on quoted market prices.

		March 31, 2007		December 31, 2006	
	Notional Units	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Commodity swaps:					
Oil	Barrels	399	$ 976	27	$ 36
Oil	Barrels	399	(882)	27	(29)
Natural gas	MMBTUs	1,670	724	600	952
Natural gas	MMBTUs	1,670	(680)	600	(953)
Commodity options:					
Oil	Barrels	663	2,669	566	1,837
Oil	Barrels	663	(2,662)	566	(1,835)
Natural gas					

Average	.151	.146	.146

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The Company s exposure to foreign exchange rate fluctuations also arises from trade receivables and intercompany payables denominated in one currency in the financial statements, but receivable or payable in another currency. At June 30, 2011, the Company had the following trade receivable and intercompany payables denominated in one currency but receivable or payable in another currency (in thousands):

	Denominated Currency	*U. S. Dollar Equivalent*
Accounts receivable in:		
Euros	£ 1,593	$ 2,557
Other European currencies	£ 921	$ 1,478
Intercompany payable in:		
Euros	£ 284	$ 456
U.S. dollars	£ 266	$ 426
U.S. dollars	yuan 4,934	$ 763

All of the above balances are revolving in nature and are not deemed to be long-term balances.

The Company does not enter into foreign currency forward contracts to reduce its exposure to foreign currency rate changes on forecasted intercompany sales transactions or on intercompany foreign currency denominated balance sheet positions. Foreign currency transaction gains and losses are included in Other non-operating expense, net in the Consolidated Statement of Earnings. The effect of translating net assets of foreign subsidiaries into U.S. dollars are recorded on the Consolidated Balance Sheet as part of Accumulated other comprehensive (loss) income.

The effects of a hypothetical simultaneous 10% appreciation in the U.S. dollar from June 30, 2011 levels against the euro, British pound sterling and Chinese yuan are as follows (in thousands):

Decrease in translation of 2011 earnings into U.S. dollars	$ 2,463
Decrease in translation of net assets of foreign subsidiaries	12,736
Additional transaction losses	119

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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,		
	2011	*2010*	*2009*
Net sales	$ 289,962	$ 269,047	$ 263,956
Cost of sales	65,025	54,898	55,923
Gross margin	224,937	214,149	208,033
Operating expenses:			
Selling, general and administrative	35,897	32,700	33,689
Research and development	25,985	25,121	23,564
Total operating expenses	61,882	57,821	57,253
Operating income	163,055	156,328	150,780
Other income (expense):			
Interest income	3,752	4,375	7,634
Other non-operating expense, net	(1,826)	(4,257)	(3,051)
Total other income	1,926	118	4,583
Earnings before income taxes	164,981	156,446	155,363
Income taxes	52,679	46,670	50,121
Net earnings	$ 112,302	$ 109,776	$ 105,242
Earnings per share:			
Basic	$ 3.03	$ 2.95	$ 2.78
Diluted	$ 3.02	$ 2.94	$ 2.78
Cash dividends per common share:	$ 1.07	$ 1.03	$ 0.75
Weighted average common shares outstanding:			
Basic	37,098	37,255	37,802
Diluted	37,172	37,347	37,900

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

TECHNE Corporation and Subsidiaries

(in thousands, except share and per share data)

	June 30, 2011	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,613	$ 94,139
Short-term available-for-sale investments	63,200	44,672
Trade accounts receivable, less allowance for doubtful accounts of $448 and $347, respectively	35,914	30,850
Income taxes receivable	0	1,755
Other receivables	1,946	1,532
Inventories	44,906	13,737
Deferred income taxes	5,797	13,379
Prepaid expenses	1,041	976
Total current assets	230,417	201,040
Available-for-sale investments	131,988	171,171
Property and equipment, net	95,398	97,400
Goodwill	86,633	25,068
Intangible assets, net	52,282	2,044
Investments in unconsolidated entities	19,633	20,559
Deferred income taxes	0	1,011
Other assets	1,319	523
	$ 617,670	$ 518,816
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 5,207	$ 5,232
Salaries, wages and related accruals	4,784	3,781
Other accounts payable and accrued expenses	2,688	4,375
Income taxes payable	5,509	3,636
Total current liabilities	18,188	17,024
Deferred income taxes	13,360	0
Commitments and contingencies (Note I)		
Shareholders equity:		
Undesignated capital stock, no par; authorized 5,000,000 shares; none issued or outstanding	0	0
Common stock, par value $.01 a share; authorized 100,000,000 shares; issued and outstanding 37,153,398 and 37,033,474 shares, respectively	371	370
Additional paid-in capital	129,312	122,537
Retained earnings	472,730	400,119
Accumulated other comprehensive loss	(16,291)	(21,234)
Total shareholders equity	586,122	501,792
	$ 617,670	$ 518,816

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME (LOSS)

TECHNE Corporation and Subsidiaries

(in thousands)

	Common Stock Shares	*Common Stock Amount*	*Additional Paid-in Capital*	*Retained Earnings*	*Accumulated Other Compre-hensive Income*	*Total*
Balances at June 30, 2008	38,643	$ 386	$ 115,408	$ 359,208	$ 12,128	$ 487,130
Comprehensive income:						
Net earnings				105,242		105,242
Other comprehensive income:						
Foreign currency translation adjustments					(21,768)	(21,768)
Unrealized gains on available-for-sale investments (net of tax of $1,251)					2,163	2,163
Comprehensive income						85,637
Common stock issued for exercise of options	21	0	975			975
Surrender and retirement of stock to exercise options	(0)	(0)	(22)			(22)
Repurchase of common stock	(1,420)	(14)		(90,615)		(90,629)
Cash dividends				(28,194)		(28,194)
Stock-based compensation expense			1,478			1,478
Tax benefit from exercise of stock options			107			107
Balances at June 30, 2009	37,244	372	117,946	345,641	(7,477)	456,482
Comprehensive income:						
Net earnings				109,776		109,776
Other comprehensive income:						
Foreign currency translation adjustments					(13,932)	(13,932)
Unrealized gains on available-for-sale investments (net of tax of $97)					175	175
Comprehensive income						96,019
Common stock issued for exercise of options	73	1	3,260			3,261
Repurchase of common stock	(284)	(3)		(16,910)		(16,913)
Cash dividends				(38,388)		(38,388)
Stock-based compensation expense			1,135			1,135
Tax benefit from exercise of stock options			196			196
Balances at June 30, 2010	37,033	370	122,537	400,119	(21,234)	501,792
Comprehensive income:						
Net earnings				112,302		112,302
Other comprehensive income:						
Foreign currency translation adjustments					5,028	5,028
Unrealized losses on available-for-sale investments (net of tax of $44)					(85)	(85)
Comprehensive income						117,245
Common stock issued for exercise of options	129	1	5,351			5,352

Surrender and retirement of stock to exercise options	(9)	(0)	(561)			(561)
Cash dividends				(39,691)		(39,691)
Stock-based compensation expense			1,138			1,138
Tax benefit from exercise of stock options			847			847
Balances at June 30, 2011	37,153	$ 371	$ 129,312	$ 472,730	$ (16,291)	$ 586,122

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

TECHNE Corporation and Subsidiaries

(in thousands)

	Year Ended June 30, 2011	2010	2009
Cash flows from operating activities:			
Net earnings	$ 112,302	$ 109,776	$ 105,242
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	8,700	8,130	7,766
Costs recognized on sale of acquired inventory	1,835	0	0
Deferred income taxes	3,194	(1,551)	(730)
Stock-based compensation expense	1,138	1,135	1,478
Excess tax benefit from stock option exercises	(847)	(196)	(107)
Losses by equity method investees	926	1,510	1,290
Other	225	222	458
Change in operating assets and liabilities, net of acquisitions:			
Trade accounts and other receivables	(3,624)	(4,034)	49
Inventories	(1,021)	(2,368)	(2,123)
Prepaid expenses	256	(186)	(42)
Trade, other accounts payable and accrued expenses	(591)	(74)	1,394
Salaries, wages and related accruals	1,268	414	(2,803)
Income taxes payable/receivable	3,433	(1,518)	(551)
Net cash provided by operating activities	127,194	111,260	111,321
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(131,766)	0	0
Purchase of available-for-sale investments	(151,366)	(176,621)	(49,173)
Proceeds from maturities of available-for-sale investments	39,501	39,555	34,315
Proceeds from sale of available-for-sale investments	134,019	27,045	41,352
Additions to property and equipment	(3,630)	(4,644)	(6,556)
Distribution from unconsolidated entity	0	50	1,340
Increase in other long-term assets	(943)	0	0
Net cash (used in) provided by investing activities	(114,185)	(114,615)	21,278
Cash flows from financing activities:			
Cash dividends	(39,691)	(38,388)	(28,194)
Proceeds from stock option exercises	4,790	3,261	953
Excess tax benefit from stock option exercises	847	196	107
Purchase of common stock for stock bonus plans	(294)	(607)	(1,681)
Repurchase of common stock	(1,940)	(14,973)	(90,629)
Net cash used in financing activities	(36,288)	(50,511)	(119,444)
Effect of exchange rate changes on cash and cash equivalents	6,753	(12,935)	(19,207)
Net change in cash and cash equivalents	(16,526)	(66,801)	(6,052)
Cash and cash equivalents at beginning of year	94,139	160,940	166,992
Cash and cash equivalents at end of year	$ 77,613	$ 94,139	$ 160,940

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TECHNE Corporation and Subsidiaries

Years ended June 30, 2011, 2010 and 2009

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

Description of business: TECHNE Corporation and subsidiaries (the Company) are engaged in the development, manufacture and sale of biotechnology products and hematology calibrators and controls. These activities are conducted domestically through its wholly-owned subsidiaries, Research and Diagnostic Systems, Inc. (R&D Systems), Boston Biochem, Inc. (Boston Biochem), BiosPacific, Inc. (BiosPacific) and Tocris Cookson, Inc. (Tocris US). The Company develops, manufactures and distributes biotechnology products in Europe through its wholly-owned U.K. subsidiaries, R&D Systems Europe Ltd. (R&D Europe) and Tocris Holdings Limited (Tocris UK). R&D Europe has a sales subsidiary, R&D Systems GmbH, in Germany and a sales office in France. The Company distributes biotechnology products in China through its wholly-owned subsidiary, R&D Systems China Co., Ltd. (R&D China). R&D China has a sales subsidiary, R&D Systems Hong Kong, Ltd., in Hong Kong.

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, 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. These estimates include the valuation of accounts receivable, available-for-sale investments, inventory, intangible assets, stock based compensation and income taxes. Actual results could differ from these estimates.

Risk and uncertainties: There are no concentrations of business transacted with a particular customer or supplier or 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 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 resulting gains and losses arising from the translation of net assets located outside the U.S. are recorded as a cumulative translation adjustment, a component of accumulated other comprehensive income (loss) on the consolidated balance sheets. Foreign statements of earnings are translated at the average rate of exchange for the year. Foreign currency transaction gains and losses are included in other non-operating expense in the consolidated statements of earnings.

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 collectability is reasonably assured. Payment terms for shipments to end-users are generally 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. Sales, use, value-added and other excise taxes are not included in revenue.

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.

Advertising costs: Advertising expenses (including production and communication costs) were $2.9 million, $3.0 million and $3.0 million for fiscal 2011, 2010 and 2009. The Company expenses advertising expenses as incurred.

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Share-based compensation: The cost of employee services received in exchange for the award of equity instruments is based on the fair value of the award at the date of grant. 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. Compensation cost is recognized using a straight-line method over the vesting period and is net of estimated forfeitures. Stock option exercises are satisfied through the issuance of new shares.

Income taxes: The Company uses the asset and liability method of 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. Tax positions taken or expected to be taken in a tax return are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

Financial instruments not measured at fair value: Certain of the Company s financial instruments are not measured at fair value but nevertheless are recorded at carrying amounts approximating fair value, based on their short-term nature. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and other current liabilities.

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 three months to three years and are recorded based on trade-date. 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 in active markets for identical assets and liabilities (Level 1 inputs). 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.

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 usage forecast. Protein and antibody quantities in excess of the two-year usage forecast are not valued due to uncertainty over salability. Sales of previously unvalued protein and antibody inventory for fiscal years 2011, 2010 and 2009 were not material. Manufacturing costs for proteins and antibodies charged directly to cost of sales were $13.7 million, $12.3 million and $11.9 million for fiscal 2011, 2010 and 2009 respectively.

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 5 to 40 years.

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Goodwill: At June 30, 2011 and 2010, the Company had recorded goodwill of $86.6 million and $25.1 million, respectively. The increase from fiscal 2010 was the result of goodwill related to acquisitions in fiscal 2011 which are described in Note B. The Company tests goodwill at least annually for impairment. All of the goodwill recorded is within the Company s biotechnology segment. The Company s annual assessment included comparison of the carrying amount of each reporting unit, including goodwill, to the fair value of the reporting unit. The Company completed its annual impairment testing of goodwill and concluded that no impairment existed as of June 30, 2011, as the fair values of the Company s reporting units substantially exceeded their carrying values, with the exception of the Tocris and Boston Biochem reporting units which were acquired in the fourth quarter of fiscal 2011. The carrying values of Tocris and Boston Biochem approximate fair values at June 30, 2011.

Impairment of intangible and other long-lived assets: Intangible assets are being amortized over their estimated useful lives. The Company reviews the carrying amount 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 asset groups subject to impairment analysis requires the Company to make assumptions and judgments regarding the fair value of these asset groups. Asset groups are considered to be impaired if their carrying amount exceeds the 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 amount exceeds its fair value would be expensed as an impairment loss. As of June 30, 2011, the Company has determined that no impairment exists.

Investments in unconsolidated entities: The Company has equity investments in several start-up and early development stage companies, among them ChemoCentryx, Inc, (CCX), Hemerus Medical, LLC (Hemerus), Nephromics, LLC (Nephromics) and ACTGen, Inc. (ACTGen). 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.

Recent accounting pronouncements: In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05 *Comprehensive Income* under an amendment to Topic 220. Under this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company must comply with ASU No. 2011-05 for the quarter ended September 30, 2012. The Company does not believe this update will have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 167, now codified in ASC Topic 810, *Consolidation.* This statement amends the consolidation guidance applicable to variable interest entities and was effective for the Company beginning July 1, 2010. The adoption of the Statement did not have a material 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 shareholders equity as previously reported. The Company reclassified prior years amortization expense as appropriate based upon the nature of the related intangible asset to cost of sales or selling, general and administrative expense.

B. Acquisitions:

Boston Biochem, Inc.: On April 1, 2011, the Company s R&D Systems subsidiary acquired for cash the assets of Boston Biochem, Inc., a developer and manufacturer of innovative ubiquitin-related research products based in Cambridge, Massachusetts. These products provide biomedical researchers tools that facilitate and accelerate basic research and drug discovery efforts. R&D Europe simultaneously acquired for cash the assets of Boston Biochem Limited, a United Kingdom based company that served as the European distributor of Boston Biochem, Inc. products.

In connection with the Boston Biochem acquisition, the Company recorded $1.9 million of developed technology intangible assets that have an estimated useful life of 12 years, $1.7 million of trade name intangible assets that have an estimated useful life of 12 years, $400,000 related to a non-compete agreement that has an estimated useful life of 5 years, and $300,000 related to customer relationships that have an estimated useful life of 12 years. The intangible asset amortization is deductible for income tax purposes.

The goodwill recorded as a result of the Boston Biochem acquisition represents the strategic benefits of enhancing and supplementing the depth and breadth of the Company s biotechnology product offering and augmenting its ability to serve research scientists, as well as leverage its marketing, sales and distribution capabilities with this important product class. The goodwill is deductible for income tax purposes.

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Transaction costs of approximately $148,000 were expensed as incurred and were included in the Company s selling, general and administrative costs during the fiscal year ended June 30, 2011.

Tocris Holdings Limited: On April 28, 2011, the Company s subsidiaries, R&D Systems and R&D Europe, acquired for cash all of the outstanding shares of Tocris Holdings Limited and subsidiaries (Tocris). Tocris is a leading supplier of biologically active neuro- and bio-chemical reagents for non-clinical life science research. Its products are used in both in-vitro and in-vivo experiments to understand biological processes and diseases as part of the initial drug discovery process. Tocris is based in Bristol, United Kingdom.

In connection with the acquisition of Tocris, the Company recorded $25.3 million of developed technology intangible assets that have an estimated useful life of 15 years, $16.5 million of trade name intangible assets that have an estimated useful life of 10 years, and $6.6 million related to customer relationships that have an estimated useful life of 13 years. The intangible asset amortization is not deductible for income tax purposes.

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

Transaction costs of approximately $1.6 million were expensed as incurred and were included in the Company s selling, general and administrative costs during the fiscal year ended June 30, 2011.

The aggregate purchase price of these acquisitions was allocated to the assets acquired and liabilities assumed based on their preliminarily estimated fair values at the date of acquisition. The preliminary estimate of the excess of purchase price over the fair value of net tangible assets acquired was allocated to identifiable intangible assets and goodwill. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of the fiscal 2011 acquisitions (in thousands):

	Boston Biochem	*Tocris*
Current assets	$ 1,738	$ 33,837
Intangible assets	4,300	48,425
Goodwill	1,500	61,365
Equipment	484	1,233
Total assets acquired	8,022	144,860
Current liabilities	134	1,800
Deferred income taxes	0	19,182
Net assets acquired	$ 7,888	$ 123,878
Cash paid, net of cash acquired	$ 7,888	$ 123,878

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

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The following table contains unaudited pro forma results for the years ended June 30, 2011 and 2010, as if the Tocris acquisition had occurred at the beginning of fiscal 2010. Pro forma results of operations have not been presented for the Boston Biochem acquisition since the effects were not material to the Company. The results of operations of all acquired businesses have been included in the Company s Consolidated Statement of Earnings since the dates of acquisition. Amounts are in thousands, except per share data.

	2011		*2010*	
	Reported	*Pro forma (Unaudited)*	*Reported*	*Pro forma (Unaudited)*
Net sales	$ 289,962	$ 305,860	$ 269,047	$ 286,913
Net earnings	112,302	118,641	109,776	113,558
Net earnings per share:				
Basic	3.03	3.20	2.95	3.05
Diluted	3.02	3.19	2.94	3.04

Pro forma adjustments relate to amortization of identified intangible assets, reduced interest income resulting from using cash to complete the acquisitions and certain other adjustments together with related income tax effects. The pro forma consolidated results do not purport to be indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor do they claim to be indicative of the results that will be obtained in the future. The above pro forma financial results include the results of continuing operations of Tocris in its entirety during these periods.

C. Available-for-sale investments:

At June 30, 2011 and 2010, 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,			
	2011		*2010*	
	Cost	*Market*	*Cost*	*Market*
State and municipal debt securities	$ 166,005	$ 166,846	$ 196,452	$ 197,437
Corporate debt securities	16,100	16,246	12,688	12,849
U.S. government securities	1,502	1,517	771	771
Foreign corporate debt securities	7,474	7,489	4,639	4,639
Foreign government securities	3,090	3,090	147	147
	$ 194,171	$ 195,188	$ 214,697	$ 215,843

Gross unrealized gains and unrealized losses on available-for-sale investments were $1.1 million and $58,000, respectively, at June 30, 2011. Gross unrealized gains and unrealized losses on available-for-sale investments were $1.2 million and $28,000, respectively, at June 30, 2010.

Unrealized gains and losses on the Company s available-for-sale investments are caused by interest rate changes. The Company has the ability and intent to hold its available-for-sale investments that are in an unrealized loss position until a recovery of fair value. The Company does not consider these investments to be other-than-temporarily impaired at June 30, 2011. The net unrealized gain or loss on available-for-sale investments, net of tax benefit, is reflected in accumulated other comprehensive income, a component of shareholders equity.

At June 30, 2011, the Company s investments in an unrealized loss position that have been determined to be temporarily impaired were as follows (in thousands):

Period of Unrealized Loss:	*Fair Value*	*Unrealized Losses*
Less than one year	$ 3,561	$ 58
Greater than one year	0	0

	$ 3,561	$	58

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Contractual maturities of available-for-sale investments 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, 2011:	
Due within one year	$ 63,200
Due one to five years	131,988
	$ 195,188

Proceeds from maturities or sales of available-for-sale securities were $173.5 million, $66.6 million and $75.7 million during fiscal 2011, 2010 and 2009, respectively. There were no material realized gains or losses on these sales. Realized gains and losses are determined on the specific identification method.

D. Inventories:

Inventories consist of (in thousands):

	June 30,	
	2011	*2010*
Raw materials	$ 5,644	$ 5,433
Finished goods	39,262	8,304
	$ 44,906	$ 13,737

At June 30, 2011 and 2010, the Company had $21.8 million and $19.9 million, respectively, of excess protein and antibody inventory on hand which was not valued.

E. Property and equipment:

Property and equipment consist of (in thousands):

	June 30,	
	2011	*2010*
Cost:		
Land	$ 7,497	$ 7,419
Buildings and improvements	119,833	118,412
Laboratory equipment	30,315	26,482
Office and computer equipment	5,407	4,672
	163,052	156,985
Accumulated depreciation and amortization	(67,654)	(59,585)
	$ 95,398	$ 97,400

F. Goodwill and intangible assets:

Changes to the carrying amount of goodwill consists of (in thousands)

	Year Ended June 30, 2011	2010
Beginning balance	$ 25,068	$ 25,068
Acquisitions	62,865	0
Currency translation	(1,300)	0
Ending balance	$ 86,633	$ 25,068

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Intangible assets consist of (in thousands):

		June 30,	
	Useful Life	*2011*	*2010*
Developed technology	8-12 years	29,943	3,483
Trade names	12-15 years	18,021	0
Customer relationships	8-14 years	$ 8,781	$ 1,966
Non-compete agreement	5 years	400	0
		57,145	5,449
Accumulated amortization		(4,863)	(3,405)
		$ 52,282	$ 2,044

Changes to the carrying amount of net intangible assets consists of (in thousands)

	Year Ended June 30,	
	2011	*2010*
Beginning balance	$ 2,044	$ 3,004
Acquisitions	52,725	0
Amortization expense	(1,464)	(960)
Currency translation	(1,023)	0
Ending balance	$ 52,282	$ 2,044

Amortization expense related to technologies included in cost of sales was $890,000, $435,000 and $435,000 in fiscal 2011, 2010 and 2009, respectively. Amortization expense related to trade names, customer relationships, and the non-compete agreement included in selling, general and administrative expense was $574,000, $525,000 and $525,000 in fiscal 2011, 2010 and 2009, respectively.

The estimated future amortization expense for intangible assets as of June 30, 2011 is as follows (in thousands):

Year Ending June 30:	
2012	$ 5,135
2013	5,135
2014	4,454
2015	4,453
2016	4,434
Thereafter	28,671
	$ 52,282

G. Investments in unconsolidated entities:

The Company has invested in the preferred stock of CCX, a technology and drug development company and holds a 16.6% ownership percentage at June 30, 2011. The Company has 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, accounts for its investment on a cost basis. The Company s net investment in CCX at both June 30, 2011 and 2010 was $14.3 million. In accordance with ASC Topic 825, *Financial Instruments,* the Company has determined that it is not practicable to estimate the fair value of its investment in CCX. Information related to future cash flows of CCX are not readily available as future cash flows are highly dependent on the ability of CCX to raise additional funds, acceptance of its products by the market, and/or U.S. Food and Drug Administration clearance to market its products. The Company has not identified any events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

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The Company has a 16.8% ownership interest in Nephromics at June 30, 2011. Nephromics has licensed technology related to the diagnosis of preeclampsia and has sublicensed the technology to several major diagnostic companies for the development of diagnostic assays. The Company accounts for its investment in Nephromics under the equity method of accounting as Nephromics is a limited liability company. The Company has financial exposure to any losses of Nephromics to the extent of its net investment, which was $3.7 million and $4.0 million at June 30, 2011 and 2010, respectively.

The Company has an 8.3% ownership percentage in Hemerus at June 30, 2011. Hemerus was formed in March 2001 and has acquired and is developing technology for the separation of leukocytes from blood and blood components. Hemerus owns two patents and has several patent applications pending and has received FDA clearance to market its products in the U.S. The Company accounts for its investment in Hemerus under the equity method of accounting as Hemerus is a limited liability company. The Company has financial exposure to any losses of Hemerus to the extent of its net investment, which was $773,000 and $1.2 million at June 30, 2011 and 2010, respectively.

The Company holds a 13.6% ownership percentage in ACTGen, a development stage biotechnology company located in Japan, as of June 30, 2011. ACTGen has intellectual property related to the identification and expression of molecules. The Company s net investment in ACTGen was $925,000 and $1.1 million at June 30, 2011 and 2010, respectively.

The Company does not currently provide loans, guarantees or other financial assistance to CCX, Nephromics, Hemerus, or ACTGen and has no obligation to provide additional funding.

H. Debt:

The Company s short-term line of credit facility consists of an unsecured line of credit of $750,000 at June 30, 2011. The line of credit expires on October 31, 2011. 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 outstanding as of June 30, 2011 and 2010.

I. Commitments and contingencies:

The Company leases office and warehouse space, vehicles and various office equipment under operating leases. At June 30, 2011, aggregate net minimum rental commitments under non-cancelable leases having an initial or remaining term of more than one year are payable as follows (in thousands):

Year Ending June 30:	
2012	$ 774
2013	764
2014	380
2015	210
2016	171
Thereafter	549
	$ 2,848

Total rent expense was approximately $416,000, $326,000 and $393,000 for the years ended June 30, 2011, 2010 and 2009, 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.

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J. Share-based compensation and other benefit plans:

Equity incentive plan: The Company s 2010 Equity Incentive Plan (the 2010 Plan) provides for the granting of incentive and nonqualified stock options, restricted stock, restricted stock units, performance shares, performance units and stock appreciation rights. There are 3.0 million shares of common stock authorized for grant under the 2010 Plan. At June 30, 2011, there were 2.8 million shares of common stock available for grant under the 2010 Plan. The maximum term of incentive options granted under the 2010 Plan is ten years. The 2010 Plan replaced the Company s 1998 Nonqualified Stock Option Plan (the 1998 Plan) and 1997 Incentive Stock Option Plan (the 1997 Plan). The 2010 Plan, the 1998 Plan and the 1997 Plan (collectively, the Plans) are administered by the Board of Directors and its Compensation Committee, which determine 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 award. The number of shares of common stock subject to outstanding awards at June 30, 2011 under the 2010 Plan, the 1998 Plan and the 1997 Plan were 183,000, 248,000, and 68,000, respectively.

Stock option activity, under the Plans for the three years ended June 30, 2011, consists of the following (shares in thousands):

	Shares	*Weighted Average Exercise Price*	*Weighted Avg. Contractual Life (Yrs.)*	*Aggregate Intrinsic Value*
Outstanding at June 30, 2008	372	$ 47.36		
Granted	47	65.07		
Exercised	(21)	46.43		
Outstanding at June 30, 2009	398	49.49		
Granted	115	64.71		
Exercised	(73)	44.67		
Outstanding at June 30, 2010	440	56.26		
Granted	188	71.71		
Exercised	(129)	41.48		
Outstanding at June 30, 2011	499	$ 64.15	6.2	$ 9.6 million
Exercisable at June 30:				
2009	379	$ 48.96		
2010	367	51.96		
2011	309	58.80	6.0	$ 7.6 million

The fair values of options granted under the Plans were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used:

	Year Ended June 30,		
	2011	*2010*	*2009*
Dividend yield	1.5%	1.6%	1.6%
Expected volatility	22%-27%	22%-30%	24%-37%
Risk-free interest rates	1.3%-2.3%	1.7%-3.1%	2.9%-3.5%
Expected lives	5 years	6 years	7 years

The dividend yield is based on the Company s historical annual cash dividend divided by the market value of the Company s common stock. The expected annualized volatility is based on the Company s historical stock price over a period equivalent to the expected life of the option granted. The risk-free interest rate is based on U.S. Treasury constant maturity interest rates with a term consistent with the expected life of the options granted.

The weighted average fair value of options granted during fiscal 2011, 2010 and 2009 was $14.58, $14.76 and $28.21, respectively. The total intrinsic value of options exercised during fiscal 2011, 2010 and 2009 were $3.1 million, $1.6 million and $648,000, respectively. The total fair value of options vested during fiscal 2011, 2010 and 2009 were $1.0 million, $1.1 million and $1.5 million, respectively.

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Stock-based compensation cost of $1.1 million, $1.1 million and $1.5 million was included in selling, general and administrative expense in fiscal 2011, 2010 and 2009, respectively. As of June 30, 2011, there was $2.4 million of total unrecognized compensation cost related to non-vested stock options which will be expensed in fiscal 2012 through 2015. The weighted average period over which the compensation cost is expected to be recognized is 1.5 years.

Profit sharing plans: The Company has profit sharing and savings plans for its 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 $718,000, $341,000 and $617,000 for the years ended June 30, 2011, 2010 and 2009, respectively. The Company operates defined contribution pension plans for employees of R&D Europe and Tocris UK. Operations have been charged for contributions to the plans of $240,000, $162,000 and $154,000 for the years ended June 30, 2011, 2010 and 2009, respectively.

Stock bonus plans: The Company may make contributions to its stock bonus 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, 2011, 2010 and 2009 operations have been charged for contributions to the plan of $690,000, $419,000 and $647,000, respectively.

Performance incentive program: Under certain employment agreements with executive officers, the Company recorded bonuses of $39,000, $44,000 and $76,000 for the years ended June 30, 2011, 2010 and 2009, respectively. In addition, options for 3,364, 40,697 and 981 shares of common stock were granted to the executive officers during fiscal 2011, 2010 and 2009, respectively.

K. Income taxes:

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

		Year Ended June 30,	
	2011	*2010*	*2009*
Earnings before income taxes consist of:			
Domestic	$ 131,080	$ 124,860	$ 121,585
Foreign	33,901	31,586	33,778
	$ 164,981	$ 156,446	$ 155,363
Taxes on income consist of:			
Currently payable:			
Federal	$ 36,600	$ 37,098	$ 38,621
State	2,302	1,856	2,308
Foreign	9,854	9,266	9,920
Net deferred:			
Federal	3,893	(1,494)	(721)
State	19	39	9
Foreign	11	(95)	(16)
	$ 52,679	$ 46,670	$ 50,121

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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,		
	2011	*2010*	*2009*
Computed expected federal income tax expense	$ 57,743	$ 54,756	$ 54,377
State income taxes, net of federal benefit	1,463	1,247	1,805
Qualified production activity deduction	(3,889)	(2,459)	(2,397)
Research and development tax credit	(1,329)	(444)	(1,192)
Tax-exempt interest	(858)	(1,114)	(1,424)
Increase (decrease) in deferred tax valuation allowance	60	44	(235)
Foreign exchange loss on repatriation	0	(4,424)	0
Other	(511)	(936)	(813)
	$ 52,679	$ 46,670	$ 50,121

Temporary differences comprising deferred taxes on the Consolidated Balance Sheets are as follows (in thousands):

	June 30	
	2011	*2010*
Inventory	$ 4,269	$ 8,902
Unrealized profit on intercompany sales	1,075	935
Excess tax basis in equity investments	3,643	3,651
Foreign tax credit carryforward	0	3,304
Deferred compensation	2,198	1,910
Other	596	950
Valuation allowance	(3,016)	(2,956)
Net deferred tax assets	8,765	16,696
Goodwill and intangible asset amortization	(15,077)	(1,241)
Depreciation	(485)	0
Other	(766)	(1,065)
Deferred tax liabilities	(16,328)	(2,306)
Net deferred tax (liabilities) assets	$ (7,563)	$ 14,390

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 potential capital loss carryovers resulting from excess tax basis in certain of its equity investments. The Company believes that it is more likely than not that the recorded deferred tax assets, net of valuation allowance, will be realized.

During fiscal 2010, the Company s R&D Europe subsidiary declared and paid a dividend of £50 million ($74.4 million) to the Company. The £50 million R&D Europe earnings had previously been taxed in the U.S. and therefore, no additional U.S. income tax resulted from the repatriation. The Company recorded a foreign currency exchange tax loss on the transaction of approximately $12.8 million and as a result, reported a $4.7 million reduction in income tax expense in fiscal 2010.

Undistributed earnings of the Company s foreign subsidiaries amounted to approximately $112 million as of June 30, 2011. Deferred taxes have not been provided on such undistributed earnings, as the Company has either paid U.S. taxes on the undistributed earnings or intends to indefinitely reinvest the undistributed earnings in the foreign operations.

A summary of changes in unrecognized tax benefits is as follows (in thousands):

	June 30	
	2011	2010
Beginning balance	$ 96	$ 91
Change due to tax positions related to the current year	(53)	15
Decrease due to lapse of statute of limitations	(9)	(10)
Ending balance	$ 34	$ 96

The gross unrecognized tax benefit balance as of June 30, 2011, 2010 and 2009 includes $3,000, $5,000 and $6,000 of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Accrued interest and penalties were not material at June 30, 2011 and 2010.

The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease in the next twelve months. The Company files income tax returns in the U.S federal tax jurisdiction, the states of Minnesota, Massachusetts and California, and several jurisdictions outside the U.S. U.S. tax returns for 2008 and subsequent years remain open to examination by the tax authorities. The Company s major non-U.S. tax jurisdictions are the United Kingdom, France and Germany, which have tax years open to examination for 2007 and subsequent years, and China, which has calendar year 2011 open to examination.

L. Earnings per share:

The number of shares used to calculate earnings per share are as follows (in thousands, except per share data):

	Year Ended June 30,		
	2011	2010	2009
Net earnings used for basic and diluted earnings per share	$ 112,302	$ 109,776	$ 105,242
Weighted average shares used in basic computation	37,098	37,255	37,802
Dilutive stock options	74	92	98
Weighted average shares used in diluted computation	37,172	37,347	37,900
Basic EPS	$ 3.03	$ 2.95	$ 2.78
Diluted EPS	$ 3.02	$ 2.94	$ 2.78

The dilutive effect of stock options in the above table excludes all options for which the aggregate exercise proceeds exceeded the average market price for the period. The number of potentially dilutive option shares excluded from the calculation was 77,000, 70,000 and 26,000 at June 30, 2011, 2010 and 2009, respectively.

M. Segment information:

The Company has two reportable segments based on the nature of its products. As a result of the above acquisitions, the Company has changed the presentation of its segment disclosure from three reporting segments (biotechnology, R&D Europe and hematology) to two reporting segments (biotechnology and hematology). R&D Systems Biotechnology Division, R&D Europe, Tocris, R&D China, BiosPacific and Boston Biochem operating segments are included in the biotechnology reporting segment. The Company s biotechnology reporting segment develops, manufactures and sells biotechnology research and diagnostic products world-wide. The Company s hematology reporting segment, which consists of R&D Systems Hematology Division, develops and manufactures hematology controls and calibrators for sale world-wide. Corresponding items of segment information have been revised for prior periods to conform to the current year presentation. No customer of either segment accounted for more than 10% of the Company s consolidated net sales for the years ended June 30, 2011, 2010 and 2009.

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.

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

	Year Ended June 30,		
	2011	*2010*	*2009*
External sales			
Biotechnology	$ 270,287	$ 250,653	$ 246,454
Hematology	19,675	18,394	17,502
Consolidated net sales	$ 289,962	$ 269,047	$ 263,956
Earnings before taxes			
Biotechnology	$ 164,332	$ 155,989	$ 156,039
Hematology	7,222	6,869	6,143
Segment earnings before taxes	171,554	162,858	162,182
Other	(6,573)	(6,412)	(6,819)
Consolidated earnings before taxes	$ 164,981	$ 156,446	$ 155,363
Goodwill			
Biotechnology	$ 86,633	$ 25,068	$ 25,068
Hematology	0	0	0
Consolidated goodwill	$ 86,633	$ 25,068	$ 25,068
Intangible assets, net			
Biotechnology	$ 52,282	$ 2,044	$ 3,004
Hematology	0	0	0
Consolidated intangible assets, net	$ 52,282	$ 2,044	$ 3,004
Assets			
Biotechnology	$ 505,087	$ 400,112	$ 355,445
Hematology	21,046	18,543	15,804
Segment assets	526,133	418,655	371,249
Other	91,537	100,161	100,756
Consolidated assets	$ 617,670	$ 518,816	$ 472,005
Depreciation and amortization			
Biotechnology	$ 7,165	$ 5,411	$ 4,502
Hematology	417	340	229
Segment depreciation and amortization	7,582	5,751	4,731
Other	1,118	2,379	3,035
Consolidated depreciation and amortization	$ 8,700	$ 8,130	$ 7,766
Capital purchases			
Biotechnology	$ 2,707	$ 3,885	$ 3,501
Hematology	149	208	94

Segment capital purchases	2,856	4,093	3,595
Other	774	551	2,961
Consolidated capital purchases	$ 3,630	$ 4,644	$ 6,556

The other reconciling items include the results of unallocated corporate expenses and assets, and the Company s share of losses from its equity method investees.

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

	Year Ended June 30,		
	2011	*2010*	*2009*
External sales			
United States	$ 159,857	$ 148,137	$ 147,271
Europe	83,676	78,496	79,381
China	8,299	6,792	5,645
Other	38,130	35,622	31,659
Total external sales	$ 289,962	$ 269,047	$ 263,956
Long-lived assets			
United States	$ 88,802	$ 91,554	$ 93,571
Europe	7,819	6,299	7,214
China	96	70	98
Total long-lived assets	$ 96,717	$ 97,923	$ 100,883

External sales are attributed to countries based on the location of the customer/distributor. Long-lived assets are comprised of land, buildings and improvements and equipment, net of accumulated depreciation and other assets.

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

In fiscal 2011, 2010 and 2009, the Company paid cash for income taxes of $46.2 million, $49.7 million and $50.9 million, respectively.

In fiscal 2011, stock options for 14,834 shares of common stock were exercised by the surrender of 9,096 shares of common stock at fair market value of $561,000. In fiscal 2009, stock options for 785 shares of common stock were exercised by the surrender of 348 shares of common stock at fair market value of $22,000.

O. Accumulated other comprehensive income:

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

	June 30,		
	2011	*2010*	*2009*
Foreign currency translation adjustments	$ (16,939)	$ (21,967)	$ (8,035)
Net unrealized gain on available-for-sale investments, net of tax	648	733	558
	$ (16,291)	$ (21,234)	$ (7,477)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

TECHNE Corporation:

We have audited the accompanying consolidated balance sheets of TECHNE Corporation and subsidiaries (the Company) as of June 30, 2011 and 2010, and the related consolidated statements of earnings, shareholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended June 30, 2011. We also have audited TECHNE Corporation s internal control over financial reporting as of June 30, 2011, 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 these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 consolidated 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, 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, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, TECHNE Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Minneapolis, Minnesota

August 29, 2011

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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.

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, 2011, 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 of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of June 30, 2011.

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Other than Executive Officers of the Registrant which is set forth at the end of Item 1 in Part I of this report, the information required by Item 10 is incorporated herein by reference to the sections entitled Election of Directors, Corporate Governance and Compliance With Section 16(a) of the Exchange Act in the Company s Proxy Statement for its 2011 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.

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ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section entitled Corporate Governance and Executive Compensation Discussion and Analysis in the Company s Proxy Statement for its 2011 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 AND RELATED SHAREHOLDER MATTERS

Information about the Company s equity compensation plans at June 30, 2011 is as follows:

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 Shareholders (1)	499,000	$ 64.15	2.8 million
Equity compensation plans not approved by Shareholders	0	0	0

(1) Includes the Company s 2010 Equity Incentive Plan, 1997 Incentive Stock Option Plan and 1998 Nonqualified Stock Option Plan.

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 2011 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, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the sections entitled Corporate Governance in the Company s Proxy Statement for its 2011 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 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the section entitled Audit Matters in the Company s Proxy Statement for its 2011 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.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

A. (1) List of Financial Statements.

The following Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K:

Consolidated Statements of Earnings for the Years Ended June 30, 2011, 2010 and 2009

Consolidated Balance Sheets as of June 30, 2011 and 2010

Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss) for the Years Ended June 30, 2011, 2010 and 2009

Consolidated Statements of Cash Flows for the Years Ended June 30, 2011, 2010 and 2009

Notes to Consolidated Financial Statements for the Years Ended June 30, 2011, 2010 and 2009

Report of Independent Registered Public Accounting Firm

A. (2) Financial Statement Schedules.

All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the Consolidated Financial Statements or Notes thereto.

A. (3) Exhibits.

See Exhibit Index immediately following signature page.

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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 29, 2011

/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 29, 2011	/s/ THOMAS E. OLAND **Thomas E. Oland** **Chairman of the Board, President, Chief Executive Officer and Director (principal executive officer)**
August 29, 2011	/s/ ROGER C. LUCAS, PH.D. **Dr. Roger C. Lucas** **Vice Chairman and Director**
August 29, 2011	/s/ HOWARD V. O CONNELL **Howard V. O Connell, Director**
August 29, 2011	/s/ RANDOLPH C. STEER, PH.D., M.D. **Dr. Randolph C. Steer, Director**
August 29, 2011	/s/ ROBERT V. BAUMGARTNER **Robert V. Baumgartner, Director**
August 29, 2011	/s/ CHARLES A. DINARELLO, M.D. **Dr. Charles A. Dinarello, Director**
August 29, 2011	/s/ KAREN A. HOLBROOK, PH.D. **Dr. Karen A. Holbrook, Director**
August 29, 2011	/s/ JOHN L. HIGGINS **John L. Higgins, Director**
August 29, 2011	/s/ ROELAND NUSSE, PH.D. **Dr. Roeland Nusse, Director**
August 29, 2011	/s/ GREGORY J. MELSEN **Gregory J. Melsen, Chief Financial Officer (principal financial officer)**
August 29, 2011	/s/ KATHLEEN M. BACKES **Kathleen M. Backes, Controller**

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EXHIBIT INDEX

for Form 10-K for the 2011 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 of the Company, as amended to date incorporated by reference to Exhibit 3.1 of the Company s Form 8-K, dated November 14, 2007.*
10.1**	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**	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.*
10.5**	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.*
10.6	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.*
10.7**	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.*
10.8**	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.*
10.9	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.*
10.10	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.*
10.11**	Form of Indemnification Agreement entered into with each director and executive officer of the Company incorporated by reference to Exhibit 10.1 of the Company s 10-Q for the quarter ended December 31, 2002.*

Exhibit Number	Description
10.12	Amended and Restated Investors Rights Agreement dated June 13, 2006 among ChemoCentryx, Inc and the Company and certain investors incorporated by reference to Exhibit 10.31 of the Company s 10-K for the year ended June 30, 2006.*
10.13**	Amended and Restated Employment Agreement, dated April 30, 2010, with Gregory J. Melsen incorporated by reference to Exhibit 10.14 of the Company s 10-K for the year ended June 30, 2010.*
10.14**	Description of Amended Executive Officer s Incentive Bonus Plan--incorporated by reference to Exhibit 10.14 of the Company s 10-K for the year ended June 30, 2010.*
10.15**	2010 Equity Incentive Plan incorporated by reference to Exhibit 10.1 of the Company s 8-K dated October 28, 2010.*
10.16**	Form of Nonqualified Stock Option Agreement for the 2010 Equity Incentive Plan incorporated by reference to Exhibit 10.2 of the Company s 8-K dated October 28, 2010.*
10.17**	Form of Incentive Stock Option Agreement for the 2010 Equity Incentive Plan incorporated by reference to Exhibit 10.3 of the Company s 8-K dated October 28, 2010.*
10.18	Share Purchase Agreement by and among Research and Diagnostic Systems, Inc., R&D Systems Europe Ltd., and the shareholders of Tocris Holdings Ltd., dated April 28, 2011 incorporated by reference to Exhibit 2.1 of the Company s 8-K dated April, 28, 2011.*
10.19**	Amended and Restated Employment Agreement, dated July 1, 2011, with Marcel Veronneau.
21	Subsidiaries of the Company:

Name	State/Country of Incorporation
Research and Diagnostic Systems, Inc. (R&D Systems)	Minnesota
BiosPacific, Inc.	Minnesota
Boston Biochem, Inc.	Minnesota
Tocris Cookson, Inc.	Delaware
Tocris Holdings Limited	United Kingdom
Tocris Investments Limited	United Kingdom
Tocris Cookson Limited	United Kingdom
R&D Systems Europe Ltd.	United Kingdom
R&D Systems GmbH	Germany
R&D Systems China Co., Ltd.	China
R&D Systems Hong Kong Ltd.	Hong Kong

Exhibit Number	Description
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Consolidated Financial Statements of Tocris Holdings Limited incorporated by reference to Exhibit 99.1 of the Company s Amended 8-K/A dated April 28, 2011.*
99.2	Pro forma financial information related to Techne s acquisition of Tocris Holdings Limited incorporated by reference to Exhibit 99.2 of the Company s Amended 8-K/A dated April 28, 2011.*
101***	The following financial statements from the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Earnings, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.***

* Incorporated by reference; SEC File No. 000-17272

** Management contract or compensatory plan or arrangement

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