

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2003, or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_  
Commission file number 0-17272  
\_\_\_\_\_

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

MINNESOTA  
(State or other jurisdiction  
of incorporation or organization)

41-1427402  
(I.R.S. Employer  
Identification No.)

614 MCKINLEY PLACE N.E.  
MINNEAPOLIS, MN 55413  
(Address of principal  
executive offices) (Zip Code)

(612) 379-8854  
(Registrant's  
telephone number,  
including area code)

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

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

At February 6, 2004, 41,078,776 shares of the Company's Common Stock (par  
value \$.01) were outstanding.

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TECHNE CORPORATION  
FORM 10-Q  
DECEMBER 31, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

TECHNE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands)  
(unaudited)

12/31/03 6/30/03  
-----

ASSETS

Cash and cash equivalents	\$ 47,972	\$ 39,371
Short-term available-for-sale investments	102,347	78,130
Trade accounts receivable, net	16,950	18,387
Interest receivable	1,830	2,054
Inventories	7,144	6,332
Deferred income taxes	4,531	4,237
Prepaid expenses	1,120	1,004

-----  
Total current assets 181,894 149,515

Property and equipment, net	81,707	81,166
Goodwill, net	12,540	12,540
Intangible assets, net	3,619	4,418
Deferred income taxes	8,366	8,715
Other long-term assets	5,655	6,923

-----  
\$293,781 \$263,277  
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Trade accounts payable	\$ 3,722	\$ 2,216
Salaries, wages and related accounts payable	1,981	1,781
Other accounts payable and accrued expenses	1,538	2,605
Income taxes payable	4,072	2,972
Current portion of long-term debt	1,259	1,234

-----  
Total current liabilities 12,572 10,808

Long-term debt, less current portion	15,219	15,852
	-----	-----
Total liabilities	27,791	26,660
	-----	-----
Commitments and contingencies (Note D)		
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 41,039,576 and 40,913,226, respectively		
	410	409
Additional paid-in capital	65,483	63,279
Retained earnings	194,751	169,809
Accumulated other comprehensive income	5,346	3,120
	-----	-----
Total stockholders' equity	265,990	236,617
	-----	-----
	\$293,781	\$263,277
	=====	=====

See notes to consolidated financial statements (unaudited).

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TECHNE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(dollars in thousands, except per share data)  
(unaudited)

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
	-----	-----	-----	-----
Net sales	\$ 38,264	\$ 33,300	\$ 76,257	\$ 67,848
Cost of sales	8,441	8,371	17,104	17,061
	-----	-----	-----	-----
Gross margin	29,823	24,929	59,153	50,787
Operating expenses:				
Selling, general and administrative	5,519	4,901	10,602	9,852
Research and development	5,450	4,979	10,413	9,812
Amortization of intangible assets	399	485	799	969
Interest expense	172	296	347	619
Interest income	(762)	(704)	(1,488)	(1,494)
Other non-operating expense, net	20	(16)	98	134
	-----	-----	-----	-----
	10,798	9,941	20,771	19,892
	-----	-----	-----	-----
Earnings before income taxes	19,025	14,988	38,382	30,895
Income taxes	6,655	5,107	13,440	10,569
	-----	-----	-----	-----
Net earnings	\$ 12,370	\$ 9,881	\$ 24,942	\$ 20,326
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ 0.30	\$ 0.24	\$ 0.61	\$ 0.49
Diluted	\$ 0.30	\$ 0.23	\$ 0.60	\$ 0.48

Weighted average common shares outstanding:

Basic	41,035	41,445	41,000	41,404
Diluted	41,653	42,316	41,627	42,300

See notes to consolidated financial statements (unaudited).

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TECHNE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in thousands)

(unaudited)

SIX MONTHS ENDED

12/31/03 12/31/02

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$ 24,942	\$ 20,326
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,008	3,134
Deferred income taxes	79	20
Losses by equity method investees	1,561	1,356
Other	216	243
Change in operating assets and operating liabilities:		
Trade accounts and interest receivable	2,050	2,627
Inventories	(718)	(405)
Prepaid expenses	(207)	(118)
Trade and other accounts payable	320	(3,098)
Salaries, wages and related accounts	182	(1,532)
Income taxes payable	1,831	3,553
Net cash provided by operating activities	33,264	26,106

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to property and equipment	(2,685)	(12,766)
Purchase of short-term available-for-sale investments	(62,810)	(41,320)
Proceeds from sale or maturity of short-term available-for-sale investments	38,138	34,191
Increase in other long-term assets	(400)	--
Net cash used in investing activities	(27,757)	(19,895)

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of common stock	1,256	1,512
Repurchase of common stock	--	(5,865)
Payments on long-term debt	(608)	(465)
Net cash provided by (used in) financing activities	648	(4,818)

Effect of exchange rate changes on cash	2,446	1,036
Net increase in cash and cash equivalents	8,601	2,429
Cash and cash equivalents at beginning of period	39,371	26,392
Cash and cash equivalents at end of period	\$ 47,972	\$ 28,821

See notes to consolidated financial statements (unaudited).

TECHNE CORPORATION & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

A. BASIS OF PRESENTATION:

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

A summary of significant accounting policies followed by the Company is detailed in the Annual Report to Shareholders for fiscal 2003. The Company follows these policies in preparation of the interim unaudited consolidated financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been

condensed or omitted. These unaudited consolidated financial statements should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 2003 included in the Company's Annual Report to Shareholders for fiscal 2003.

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

	12/31/03	6/30/03
	-----	-----
<b>ACCOUNTS RECEIVABLE</b>		
Accounts receivable	\$ 17,227	\$ 18,655
Less allowance for doubtful accounts	277	268
	-----	-----
<b>NET ACCOUNTS RECEIVABLE</b>	<b>\$ 16,950</b>	<b>\$ 18,387</b>
	=====	=====
<b>INVENTORIES</b>		
Raw materials	\$ 3,125	\$ 2,618
Supplies	107	119
Finished goods	3,912	3,595
	-----	-----
<b>TOTAL INVENTORIES</b>	<b>\$ 7,144</b>	<b>\$ 6,332</b>
	=====	=====
<b>PROPERTY AND EQUIPMENT</b>		
Land	\$ 3,264	\$ 2,999
Buildings and improvements	67,877	64,930
Building construction in progress	17,112	18,310
Laboratory equipment	16,879	16,372
Office equipment	3,317	3,106
Leasehold improvements	579	537
	-----	-----
	109,028	106,254
Less accumulated depreciation and amortization	27,321	25,088
	-----	-----
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 81,707</b>	<b>\$ 81,166</b>
	=====	=====

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	12/31/03	6/30/03
	-----	-----
<b>GOODWILL</b>	<b>\$ 38,846</b>	<b>\$ 38,846</b>
Less accumulated amortization	26,306	26,306
	-----	-----
<b>NET GOODWILL</b>	<b>\$ 12,540</b>	<b>\$ 12,540</b>
	=====	=====
<b>INTANGIBLE ASSETS</b>		
Customer list	\$ 18,010	\$ 18,010
Technology licensing agreements	500	500
Acquisition costs	230	230
	-----	-----
	18,740	18,740
Less accumulated amortization	15,121	14,322
	-----	-----
<b>NET INTANGIBLE ASSETS</b>	<b>\$ 3,619</b>	<b>\$ 4,418</b>
	=====	=====

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 addresses the consolidation by businesses of variable interest entities and requires businesses to consolidate a variable interest entity if it has a variable interest that will absorb a majority of the entity's expected losses if they occur, or receive a majority of the entity's expected returns if they occur, or both. FIN 46 is effective for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of FIN 46 are applicable to the Company for the quarter ended December 31, 2003. The Company has assessed its relationships with ChemoCentryx, Inc. and Discovery Genomics, Inc., development stage companies in which the Company has 26% and 39% equity investments, respectively. The Company has determined that neither investment is required to be consolidated in the Company's financial statements pursuant to FIN 46. In December 2003, the FASB revised FIN 46.

The Company is required to follow the revised FIN 46 guidance for the quarter ended March 31, 2004. The Company is currently evaluating the impact of the revised interpretation on its investments in ChemoCentryx, Inc., Discovery Genomics, Inc. and the January 2004 investment in Hemerus Medical, LLC.

## B. EARNINGS PER SHARE:

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

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
Weighted average common shares outstanding-basic	41,035	41,445	41,000	41,404
Dilutive effect of stock options and warrants	618	871	627	896
Weighted average common shares outstanding-diluted	41,653	42,316	41,627	42,300

The dilutive effect of stock options and warrants in the above table excludes all options for which the exercise price was higher than the average market price for the period. The number of potentially dilutive option shares excluded from the calculation was 508,000 and 512,000 for the quarter and six months ended December 31, 2003, respectively, and 532,000 and 551,000 for the same prior year periods.

During the six months ended December 31, 2002, the Company purchased and retired 248,000 shares of Company common stock at a market value of \$5,865,000. The effect of the purchases was a 248,000 and 229,000 reduction in the weighted average common shares outstanding for the quarter and six months ended December 31, 2002, respectively. The Board of Directors has authorized the Company, subject to market conditions and share price, to purchase and retire up to \$40 million of its common stock. From the start of the repurchase program through February 7, 2004, approximately 2,398,000 shares have been purchased at a market value of \$33,176,000.

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## C. SEGMENT INFORMATION:

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

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
External sales				
Hematology	\$ 4,454	\$ 3,986	\$ 8,735	\$ 7,760
Biotechnology	22,799	20,454	46,831	42,941
R&D Systems Europe	11,011	8,860	20,691	17,147
Total external sales	\$ 38,264	\$ 33,300	\$ 76,257	\$ 67,848
Intersegment sales				
Hematology	\$ --	\$ --	\$ --	\$ --
Biotechnology	4,967	4,501	9,588	8,651
R&D Systems Europe	--	9	--	23
Total intersegment sales	\$ 4,967	\$ 4,510	\$ 9,588	\$ 8,674
Earnings before income taxes				
Hematology	\$ 1,611	\$ 1,397	\$ 3,041	\$ 2,562
Biotechnology	14,896	12,432	30,724	26,676
R&D Systems Europe	4,048	2,323	7,397	4,134
Corporate and other	(1,530)	(1,164)	(2,780)	(2,477)
Total earnings before income taxes	\$ 19,025	\$ 14,988	\$ 38,382	\$ 30,895

#### D. CONTINGENCIES:

The Company's tax returns are subject to audit by various governmental entities in the normal course of business. The Company has received an audit assessment of \$1.75 million, plus interest, from the State of Minnesota for fiscal years 2000 to 2003. Under issue is the Company's method for determining Minnesota taxable income. The Company will be filing an appeal with the Minnesota Department of Revenue for abatement of the assessment. The Company believes that the ultimate resolution of the matter will not materially effect the consolidated financial position or operations of the Company.

#### E. STOCK OPTIONS:

As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, the Company has elected to continue following the guidance of Accounting Principles Board (APB) Opinion No. 25 for measurement and recognition of stock-based transactions with employees. No compensation cost has been recognized for stock options granted to employees under the plans because the exercise price of all options granted was at least equal to the fair value of the common stock at the date of grant.

If compensation cost for employee options granted under the Company's stock consistent with the methods provided in SFAS No. 123, the Company's net earnings and earnings per share would have been as follows (in thousands, except per share data):

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	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
Net earnings:				
As reported	\$ 12,370	\$ 9,881	\$ 24,942	\$ 20,326
Less employee stock-based compensation, net of taxes	2,120	409	2,214	528
Pro forma	\$ 10,250	\$ 9,472	\$ 22,728	\$ 19,798
Basic earnings per share:				
As reported	\$ 0.30	\$ 0.24	\$ 0.61	\$ 0.49
Less employee stock-based compensation	0.05	0.01	0.06	0.01
Pro forma	\$ 0.25	\$ 0.23	\$ 0.55	\$ 0.48
Diluted earnings per share:				
As reported	\$ 0.30	\$ 0.23	\$ 0.60	\$ 0.48
Less employee stock-based compensation	0.05	0.01	0.05	0.01
Pro forma	\$ 0.25	\$ 0.22	\$ 0.55	\$ 0.47

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

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
Dividend yield	--	--	--	--
Expected volatility	48%-53%	49%	48%-53%	49%-52%
Risk free interest rates	3.9%-4.3%	4.2%	3.9%-4.4%	4.2%-4.5%
Expected lives	7-10 years	10 years	7-10 years	7-10 years

#### F. SUBSEQUENT EVENT:

Effective January 1, 2004, Techne purchased a 10% interest in Hemerus Medical, LLC for \$3 million. Hemerus Medical, LLC was formed in March 2001 and has acquired and is developing technology for the separation of leukocytes from blood and blood components. Leukoreduced blood is important in blood transfusion. Hemerus owns two patents and has several patent applications pending and is currently pursuing FDA approval to market its products in the U.S. In parallel with this investment, R&D Systems entered into a Joint Research Agreement with Hemerus. The research will involve joint projects to explore the use of Hemerus's filter technology to applications within R&D Systems' Hematology and Biotechnology Divisions. Such applications, if any, may have commercial potential in other laboratory environments.

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

Results of Operations Quarter and Six Months Ended December 31, 2003  
vs. Quarter and Six Months Ended December 31, 2002

### Overview

Techne Corporation (the Company) has two operating subsidiaries: Research and Diagnostic Systems, Inc. (R&D Systems) located in Minneapolis, Minnesota and R&D Systems Europe Ltd. (R&D Europe) located in Abingdon, England. R&D Systems has two divisions: Biotechnology and Hematology. The Biotechnology Division's principal products are purified cytokines (proteins), antibodies and assay kits, which are sold primarily to biomedical researchers at pharmaceutical companies and academic and government research laboratories. The Hematology Division's principal products are whole blood hematology controls and calibrators which are sold to hospital and clinical laboratories to check the performance of their hematology instruments to assure the accuracy of hematology test results. R&D Europe sells R&D Systems' biotechnology products in Europe directly, through a branch office in France and through a sales subsidiary in Germany.

### Critical Accounting Policies

The Company's significant accounting policies are discussed in the Company's Annual Report to Shareholders for fiscal 2003. The application of certain of these policies requires judgments and estimates that can affect the results of operations and financial position of the Company. Management believes the following accounting policies are critical to the preparation of the consolidated financial statements. The following should be read in conjunction with the more complete discussion of the Company's accounting policies included in the Annual Report to Shareholders for fiscal 2003.

**Accounts receivable.** The Company continually monitors collections from its customers and maintains a provision for estimated credit losses based upon historical experience and specific collection issues that have been identified. If financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Inventory.** The manufacturing process for proteins and antibodies has and may continue to produce quantities in excess of forecasted usage. The Company values its manufactured protein and antibody inventory based on a two-year sales forecast. Any significant changes in product demand or market conditions could have an impact on the value of inventories and the change in value would be reflected in cost of sales in the period of the change.

**Income taxes.** The Company's tax returns are subject to audit by various governmental entities in the normal course of business. Audits can involve complex issues, which may require extended periods of time to resolve. The Company believes that adequate provisions for income taxes have been made in the consolidated financial statements.

## Overall Results

Consolidated net earnings increased 25% and 23% for the quarter and six months ended December 31, 2003 compared to the same prior year periods. The primary reasons for the increases were increased net sales and improved gross margins. Net sales for the quarter and six months ended December 31, 2003, increased 15% and 12%, respectively, from the same periods in the prior year. Gross margins, as a percent of sales increased from 75% for the quarter and six months ended December 31, 2002 to 78% for the quarter and six months ended December 31, 2003. The impact on consolidated net earnings of higher exchange rates used to convert R&D Europe results from pounds to dollars was \$253,000 and \$335,000 for the quarter and six months ended December 31, 2003, respectively. The Company generated cash of \$33.3 million from operating activities in the first six months of fiscal 2004 and cash, cash equivalents and short-term available-for-sale investments were \$150 million at December 31, 2003 compared to \$118 million at June 30, 2003.

## Net Sales

Net sales for the quarter ended December 31, 2003 were \$38,264,000, an increase of \$4,964,000 (15%) from the quarter ended December 31, 2002. Net sales for the six months ended December 31, 2003 increased \$8,409,000 (12%) from \$67,848,000 to \$76,257,000. R&D Systems' Biotechnology Division net sales increased \$2,345,000 (11%) and \$3,890,000 (9%), respectively, for the quarter and six months ended December 31, 2003. R&D Systems' Hematology Division net sales increased \$468,000 (12%) and \$975,000 (13%), respectively, for the quarter and six months ended December 31, 2003. The higher than usual growth in Hematology Division sales was primarily due to a distributor added in January 2003 that generated sales of \$166,000 and \$326,000 for the quarter and six months ended December 31, 2003, respectively, and \$99,000 and \$362,000, respectively, in increased sales to OEM customers in the same periods. R&D Europe net sales increased \$2,151,000 (24%) and \$3,544,000 (21%) for the quarter and six months ended December 31, 2003, respectively. In British pounds, R&D Europe's net sales increased 13% for both the quarter and six months.

## Gross margins

Gross margins for the second quarter of fiscal 2004 were 77.9% compared to 74.9% for the same quarter in fiscal 2003. Gross margins for the six months ended December 31, 2003 were 77.6% compared to 74.9% for the same period in fiscal 2003. The majority of the increase in margin percentage was the result of R&D Europe's gross margins increasing from 40.3% and 40.1% for the quarter and six months ended December 31, 2002 to 50.4% and 49.8% for the quarter and six months ended December 31, 2003, respectively. This increase was due to favorable exchange rates as a result of a weaker U.S. dollar to the British pound and the expiration, on June 30, 2003, of a five-year, 5% royalty agreement associated with the purchase of Genzyme, Inc.'s reagent business in fiscal 1999. R&D Europe expensed \$436,000 and \$844,000, respectively, in the quarter and six months ended December 31, 2002 under this agreement. In addition, Biotechnology Division gross margins increased from 78.1% and 78.3% for the quarter and six months ended December 31, 2002 to 80.1% and 79.7% for the quarter and six months ended December 31, 2003, respectively. Hematology Division gross margins increased from 47.0% and 45.2% for the quarter and six months ended December 31, 2002 to 47.4% and 46.3% for the quarter and six months ended December 31, 2003, respectively.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$618,000 (13%) and \$750,000 (8%) from the second quarter and first six months of last year.

R&D Systems, Inc.	\$ 3,332	\$ 3,207	\$ 6,374	\$ 6,319
R&D Europe	1,891	1,563	3,590	3,175
Corporate expenses	296	131	638	358

Total selling, general and administrative

	\$ 5,519	\$ 4,901	\$ 10,602	\$ 9,852
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R&D Europe's selling, general and administrative expenses increased \$328,000 (21%) and \$415,000 (13%) for the quarter and six months ended December 31, 2003, respectively, as compared to the same prior year periods. Most of this increase was the result of higher exchange rates used to convert R&D Europe's expenses from pounds to dollars. In British pound sterling, R&D Europe's selling, general and administrative expenses increased 101,000 pounds (10%) and 118,000 pounds (6%) for the quarter and six months ended December 31, 2003, respectively, as a result of increased wages and printing costs. Techne's corporate expenses increased \$165,000 and \$280,000, respectively, for the quarter and six months ended December 31, 2003 as compared to the same prior year periods. The increase for the quarter was the result of higher directors' and officers' insurance (D&O) premium increases (\$44,000) and consulting fees associated with compliance with Sarbanes-Oxley (\$109,000). The increase for the six months was the result of higher audit and related fees (\$76,000), D&O premium increases (\$87,000) and Sarbanes-Oxley consulting fees (\$109,000).

#### Research and Development Expenses

Research and development expenses increased \$471,000 (9%) and \$601,000 (6%) for the quarter and six months ended December 31, 2003 as compared to the quarter and six months ended December 31, 2002. Included in research and development expenses are the Company's share of losses by ChemoCentryx, Inc. (CCX) and Discovery Genomics, Inc. (DGI), development stage companies in which the Company has invested. Research and development expenses are composed of the following (in thousands):

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/03	12/31/02	12/31/03	12/31/02
R&D Systems' expenses	\$ 4,497	\$ 4,320	\$ 8,852	\$ 8,456
ChemoCentryx, Inc. losses	828	496	1,264	1,015
Discovery Genomics, Inc. losses	125	163	297	341
Total research and development expenses	\$ 5,450	\$ 4,979	\$ 10,413	\$ 9,812

Excluding CCX and DGI losses, research and development expenses for the quarter and six months ended December 31, 2003 increased \$177,000 (4%) and \$396,000 (5%), respectively.

The Company's net investment in CCX and DGI at December 31, 2003 was \$1,247,000 and \$1,590,000, respectively. The Company has financial exposure to the losses of CCX and DGI to the extent of its net investment in each of the companies. In addition, as development stage companies, both CCX and DGI are dependent on their ability to raise additional funds to continue their research and development efforts. If such funding were unavailable or inadequate to fund operations, the Company would potentially recognize an impairment loss to the extent of its remaining net investment.

#### Other Non-operating Income/Expense

Other non-operating income/expense consists mainly of foreign currency transaction gains and losses, rental income, and real estate taxes and utility expenses related to properties under construction/renovation.

	QUARTER ENDED	SIX MONTHS ENDED
	12/31/03	12/31/02

	12/31/03	12/31/02	12/31/03	12/31/02
Foreign currency (gains)/losses	\$ (129)	\$ (128)	\$ (213)	\$ (79)
Rental income	(46)	(6)	(65)	(6)
Real estate taxes/utilities	195	118	376	219
Total other non-operating (income)/expense	\$ 20	\$ (16)	\$ 98	\$ 134

#### Income Taxes

Income taxes for the quarter and six months ended December 31, 2003 were provided at a rate of approximately 35% of consolidated earnings before income taxes compared to 34% for the quarter and six months ended December 31, 2002. U.S. federal taxes have been reduced by the credit for research and development expenditures and the benefit for foreign sales. Foreign income taxes have been provided at rates which approximate the tax rates in the countries in which R&D Europe operates. Without significant business developments, the Company expects income tax rates for the remainder of fiscal 2004 to range from 35% to 36%.

#### Liquidity and Capital Resources

At December 31, 2003, cash and cash equivalents and short-term available-for-sale investments were \$150,319,000 compared to \$117,501,000 at June 30, 2003. The Company believes it can meet its future cash, working capital and capital addition requirements through currently available funds, cash generated from operations and maturities of short-term available-for-sale investments. The Company has an unsecured line of credit of \$750,000. The interest rate on the line of credit is at prime. There were no borrowings on the line in the prior or current fiscal year.

#### Cash Flows From Operating Activities

The Company generated cash of \$33,264,000 from operating activities in the first six months of fiscal 2004 compared to \$26,106,000 for the first six months of fiscal 2003. The increase was mainly the result of increased earnings in the current year and the conclusion of the royalty agreement with Genzyme, Inc. discussed above under which \$3 million was paid in the first six months of last year.

#### Cash Flows From Investing Activities

Capital expenditures for fixed assets for the first six months of fiscal 2004 and 2003 were \$2,685,000 and \$12,766,000, respectively. Included in the first six months of fiscal 2004 and 2003 capital additions were \$202,000, and \$9 million, respectively, for renovation and construction of property in Minneapolis. Also included in fiscal 2004 and 2003 capital additions was \$1.7 and \$2.7 million related to property in southeast Minnesota. The Company is currently constructing additional facilities at this site to house goats used in the production of its antibodies. Included in fiscal 2003 capital additions was \$202,000 for the completion of a parking ramp. The remaining capital additions in the first six months of fiscal 2004 and 2003 were for laboratory and computer equipment and remodeling of laboratory space.

Remaining expenditures in fiscal 2004 for laboratory and computer equipment are expected to be approximately \$1 million and are expected to be financed through currently available funds and cash generated from operating activities. Costs to finish construction of the goat facilities in southeast Minnesota are expected to be approximately \$300,000 with completion in the third quarter of fiscal 2004. Costs to finish the renovation of the Minneapolis property are estimated at approximately \$8 million and will be completed over the next several years as additional laboratory space is needed for the Company's operations. All construction is expected to be

financed through currently available funds and cash generated from operating activities.

During the six months ended December 31, 2003 the Company purchased \$62,810,000 and had sales or maturities of \$38,138,000 of short-term available-for-sale investments. During the six months ended December 31, 2002, the Company purchased \$41,320,000 and had sales or maturities of \$34,191,000 of short-term available-for-sale investments. The Company's investment policy is to place excess cash in short-term bonds and other short-term investments. The objective of this policy is to obtain the highest possible return with minimal risk, while keeping the funds accessible.

#### Cash Flows From Financing Activities

Cash of \$1,256,000 and \$1,512,000 was received during the six months ended December 31, 2003 and 2002, respectively, for the exercise of options for 126,000 and 109,000 shares of common stock.

During the first six months of fiscal 2003, the Company purchased and retired 248,000 shares of Company common stock at a market value of \$5,865,000. The Board of Directors has authorized the Company, subject to market conditions and share price, to purchase and retire up to \$40 million of its common stock. From the start of the repurchase program through February 7, 2003, approximately 2,398,000 shares have been purchased at a market value of \$33,176,000.

The Company has never paid cash dividends and has no plans to do so in fiscal 2004.

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

At December 31, 2003, the Company had a professionally managed investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$102 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency rate changes. The Company is exposed to market risk from foreign exchange rate fluctuations of the euro and the British pound to the U.S. dollar as the financial position and operating results of the Company's U.K. subsidiary and European operations are translated into U.S. dollars for consolidation. At the current level of R&D Europe operating results, a 10% increase or decrease in the average exchange rate used to translate operating results into U.S. dollars would have an approximate \$1 million effect on consolidated operating results annually.

The Company's exposure to foreign exchange rate fluctuations also arises from transferring funds from the U.K. subsidiary to the U.S. subsidiary and from transferring funds from the German subsidiary and French branch office to the U.K. subsidiary. At December 31, 2003, the Company had \$354,000 of dollar denominated intercompany debt at its U.K. subsidiary and at December 31, 2003, the U.K. subsidiary had \$413,000 of dollar denominated intercompany debt from its European operations. These intercompany balances are revolving in nature and are not deemed to be long-term balances. The Company's U.K. subsidiary recognized net foreign currency gains of 73,000 pounds (\$129,000) for the quarter ended December 31, 2003 and recognized net foreign currency gains of 79,000 pounds (\$128,000) for the quarter ended December 31, 2002. For the six months ended December 31, 2003 and 2002, the Company's UK subsidiary recognized net foreign currency gains of 122,000 pounds (\$213,000) and 48,000 pounds (\$79,000), respectively. The Company does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes on intercompany foreign currency denominated balance sheet positions.

As of December 31, 2003, the Company's long-term debt of \$15,219,000 consisted of a mortgage note payable. The interest rate on the mortgage note

was fixed at 7% through November 2002. The terms of the note payable were modified in December 2002 to include a floating interest rate at the one month LIBOR rate plus 2.5% with a floor of 4%. The floating interest rate on the mortgage note payable was below the 4% floor as of December 31, 2003.

#### ITEM 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. 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.

### PART II. OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

See Item 3 of the Registrant's Annual Report of Form 10-K for the fiscal year ended June 30, 2003.

#### ITEM 2 - CHANGES IN SECURITIES

None

#### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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#### ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

Information relating to the Company's Annual Meeting of Shareholders, held on October 23, 2003 is contained in the Company's Form 10-Q for the quarter ended September 30, 2003, which is incorporated herein by reference.

#### ITEM 5 - OTHER INFORMATION

Forward Looking Information and Cautionary Statements: Statements in this filing, and elsewhere, which look forward in time involve risks and uncertainties which may affect the actual results of operations. The following important factors, among others, have affected and, in the future, could affect the Company's actual results: the introduction and acceptance of new biotechnology and hematology products, the levels and particular directions of research by the Company's customers, the impact of the growing number of producers of biotechnology research products and related price competition, the retention of hematology OEM (private label) and proficiency survey business, the impact of changes in foreign currency exchange rates, and the costs and results of research and product development efforts of the Company and of companies in which the Company has invested or with which it has formed strategic relationships. For additional information concerning such factors, see the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

See exhibit index following.

B. REPORTS ON FORM 8-K

Form 8-K dated January 27, 2004 furnishing pursuant to Item 12, the Registrant's press release reporting earnings for the second quarter of fiscal 2004 and segment information for the second quarter and six months ended December 31, 2003.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TECHNE CORPORATION  
(Company)

Date: February 13, 2004      /s/ Thomas E. Oland

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President, Chief Executive and  
Chief Financial Officer

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EXHIBIT INDEX  
TO  
FORM 10-Q

TECHNE CORPORATION

Exhibit #	Description
-----	-----
31	Section 302 Certification
32	Section 906 Certification

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## CERTIFICATION

I, Thomas E. Oland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Techne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2004

/s/ Thomas E. Oland

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Thomas E. Oland  
Chief Executive Officer and  
Chief Financial Officer



TECHNE CORPORATION

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Techne Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Oland, Chief Executive and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas E. Oland

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Chief Executive Officer and  
Chief Financial Officer  
February 13, 2004