TECHNE CORP /MN/
Form PRE 14A
September 04, 2012

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant x Filed by a Party Other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

# TECHNE CORPORATION

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**TECHNE CORPORATION**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD**

**October 25, 2012**

Dear Fellow Shareholders:

I am pleased to invite you to attend the 2012 annual meeting of shareholders (the Annual Meeting ) of Techne Corporation (the Company ). The Annual Meeting will be held at the offices of the Company, 614 McKinley Place N.E., Minneapolis, Minnesota, on Thursday, October 25, 2012, at 3:30 p.m. (Central Daylight Time). The agenda for the Annual Meeting is as follows:

1. Set the number of members of the Board of Directors at nine (9).

2. Elect directors of the Company.

3. Cast a non-binding vote on named executive officer compensation.

4. Approve an amendment to the Company s Restated Articles of Incorporation that would implement a majority voting standard for uncontested director elections.

5. Ratify the appointment of the Company s independent registered public accounting firm for the 2013 fiscal year.

6. Take action upon any other business that may properly come before the Annual Meeting or any adjournment thereof.

Only shareholders of record shown on the books of the Company at the close of business on August 31, 2012 will be entitled to vote at the Annual Meeting or any adjournment thereof. Each shareholder is entitled to one vote per share on all matters to be voted on at the Annual Meeting.

I hope that you will attend the Annual Meeting. Whether or not you plan to attend, I encourage you to designate the proxies to vote your shares as soon as possible. If you received your proxy materials by mail, please sign, date and return your Proxy in the return envelope provided. Any shareholder may also vote over the Internet using the instructions provided. Your cooperation in promptly signing and returning the Proxy or voting by Internet will help avoid further solicitation expense to the Company.

This Notice, the Proxy Statement and the enclosed Proxy are provided to you by order of the Board of Directors (the Board of Directors or the Board ).

THOMAS E. OLAND,
*Chairman of the Board, President and*
*Chief Executive Officer*

Dated: September 14, 2012

Minneapolis, Minnesota

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON OCTOBER 25, 2012:**

**The Proxy Statement and 2012 Annual Report to Shareholders are**

**available at www.proxyvote.com**

**You may vote your proxy at www.proxyvote.com**

**TECHNE CORPORATION**

**PROXY STATEMENT**

for

Annual Meeting of Shareholders

To Be Held October 25, 2012

**COMPANY HIGHLIGHTS**

To assist you in reviewing the proposals to be acted upon, including the election of directors and the non-binding advisory vote to approve named executive officer compensation, we call your attention to the following information about the Company s 2012 financial performance and key executive compensation actions and decisions. The following description is only a summary. For more complete information about these topics, please review the Company s Annual Report on Form 10-K and the complete Proxy Statement.

**Business Highlights:**

***We maintained strong net sales and earnings***. Net sales as reported grew 8.5% to $315 million for the fiscal year ended June 30, 2012, while organic sales grew 1.8% compared to the prior fiscal year. Organic sales exclude sales from acquisitions and the effect of changes in foreign currency exchange rates. Earnings for the fiscal year ended June 30, 2012 were $112 million, or $3.04 per diluted share. Adjusted earnings for the fiscal year were $121 million (an increase of 3.7% from the prior fiscal year) or $3.26 per diluted share. Adjusted earnings exclude the impact of impairment charges on certain equity investments, the reversal of deferred tax asset valuation allowances, intangible asset amortization, costs recognized upon the sale of inventory that was written-up to fair value and professional fees incurred as part of the acquisitions of Boston Biochem, Inc. and Tocris Holdings Limited completed in the quarter ended June 30, 2011.

***We increased our dividend***. Given our strong financial performance, our Board increased our quarterly common stock dividend to $0.28 per share, a 3.7% increase over the dividend paid in 2011.

***We continued to strengthen the business***. We acquired Boston Biochem, Inc. and Tocris Holdings Limited during the fourth fiscal quarter of 2011. We have subsequently integrated the manufacturing of Boston Biochem products into our Minneapolis-based manufacturing processes, closed Tocris U.S. distribution center and consolidated the U.S. sales and distribution functions of both Tocris products and Boston Biochem products with our other U.S. sales activities. In Europe and China, we have also integrated the sales and distribution functions of both acquired companies into our operations in those geographies.

**Compensation Highlights:**

Last year, 98.9% of the votes cast on the advisory vote on our executive compensation program voted in support of the compensation paid to the named executive officers. We have a strong interest in shareholder engagement and were encouraged by this feedback. We continue to strive to reward strong performance and align the interests of senior management and shareholders.

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## INFORMATION ABOUT THE ANNUAL MEETING

### Who can Vote

Your proxy (the Proxy ) is solicited by the Board of Directors of Techne Corporation for use at the Annual Meeting of Shareholders to be held on October 25, 2012 and at any adjournment thereof, for the agenda items set forth in the attached Notice of Annual Meeting. A Notice of Internet Availability of Proxy Materials was mailed to shareholders on or about September 14, 2012. For shareholders who had previously requested hard copies, the Notice of Annual Meeting, Proxy Statement, 2012 Annual Report to Shareholders and proxy card are being mailed on or about September 18, 2012.

You are entitled to vote your shares of Company common stock ( Common Stock ) at the Annual Meeting if our records show that you held your shares as of the record date designated by the Board of Directors, August 31, 2012. At the close of business on August 31, 2012, 36,828,834 shares of Common Stock were issued and outstanding. Such Common Stock is the only outstanding class of stock of the Company. Each share of Common Stock is entitled to one vote on each matter to be voted upon at the Annual Meeting. Holders of the Common Stock are not entitled to cumulative voting rights in the election of directors.

### Voting Your Proxy

If your Common Stock is held through a broker, bank or other nominee (*i.e.*, held in street name ), you will receive instructions from such entity that you must follow in order to have your shares voted. If you want to vote in person, you must obtain a legal proxy from your broker, bank or other nominee and bring it to the meeting.

If you hold your shares in your own name, as a holder of record with our transfer agent, American Stock Transfer & Trust Company, you may vote in person at the Annual Meeting, or you can instruct the proxies to vote your shares by visiting www.proxyvote.com, or, if you received your proxy materials by mail, by completing, signing and dating the enclosed proxy card and returning it promptly in the envelope provided.

Whichever method you select to transmit your voting instructions, the proxies appointed by the Board will vote your shares in accordance with those instructions. If you sign and return a Proxy without specifying voting instructions, the proxies will, subject to the following, vote your shares in accordance with the Board s recommendations set forth in the Proxy Statement, including in favor of the number and slate of directors proposed by the Nominations and Governance Committee of the Board of Directors and listed herein.

If you are a holder of record, you may revoke your Proxy by sending a written statement to that effect to the Corporate Secretary of the Company, submitting a properly signed proxy card with a later date, or filing a notice of termination of your Proxy and voting in person at the Annual Meeting. If you hold your shares in street name, you must follow the instructions of your broker, bank or other nominee in order to revoke previously-rendered voting instructions.

### Voting Standards

You may either vote for, against or abstain on each of the proposals set forth herein. A quorum is required to transact business at the Annual Meeting. As of the close of business on the record date, the Company had 36,828,834 shares outstanding, meaning that 18,414,418 shares must be present in person or by proxy to establish a quorum. If a quorum is present, the affirmative vote of a majority of votes present and entitled to vote is required to approve each proposal, except that directors are elected by a plurality of votes cast. Assuming that a quorum is present and Proposal #1 is approved by shareholders, the nine candidates for election that receive a plurality of the vote of the shares present and entitled to vote in the affirmative will be elected. If a quorum is present and Proposal #1 is not approved by shareholders, the eight candidates for election that receive a plurality of the vote of the shares present and entitled to vote in the affirmative will be elected.

If you return a Proxy, but abstain from voting as to any matter, then your shares will be deemed present at the Annual Meeting for purposes of determining a quorum and for purposes of calculating the vote with respect to such matter, but shall not be deemed to have voted in favor of such matter. Abstentions, therefore, as to any proposal, other than election of directors, will have the same effect as votes against such proposal. If a shareholder withholds authority to vote for a particular director nominee, such withheld authority will not count as an affirmative vote for such nominee.

If you hold your shares in street name and do not submit voting instructions to your broker, bank or other nominee, your broker bank or other nominee will not be permitted to vote your shares in their discretion on any proposal other than the proposal to ratify the independent registered public accounting firm. If a broker returns a non-vote Proxy, indicating a lack of voting instruction by the beneficial holder of the shares and a lack of discretionary authority on the part of the broker to vote on a particular matter, then the shares covered by such non-vote shall be deemed present at the Annual Meeting for purposes of determining a quorum, but shall not be deemed to be represented at the Annual Meeting for purposes of calculating the vote required for approval of such matter. Broker non-votes will not affect the outcome of any proposal, as they are not deemed entitled to vote.

**Board Recommendations**

*THE BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO SET THE NUMBER OF DIRECTORS AT NINE, FOR EACH OF THE DIRECTOR NOMINEES, FOR THE ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION, FOR THE PROPOSAL TO AMEND THE COMPANY S RESTATED ARTICLES OF INCORPORATION TO IMPLEMENT MAJORITY VOTING IN UNCONTESTED DIRECTOR ELECTIONS, AND FOR THE RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.*

**Cost of Proxy Solicitation**

The cost of soliciting Proxies, including preparing, assembling and mailing the Proxies and soliciting material, will be borne by the Company. Directors, officers and regular employees of the Company may, without compensation other than their regular compensation, solicit Proxies personally or by telephone.

**Location of the Annual Meeting**

The Annual Meeting will be held at the offices of the Company, 614 McKinley Place N.E., Minneapolis, Minnesota, 55413, which is also the mailing address of the Company. If you need directions to the Annual Meeting, please contact the Company at 612-379-8854.

**PROPOSALS #1 AND #2: ELECTION OF DIRECTORS**

**General Information**

The bylaws of the Company provide that the number of directors shall be determined by the shareholders at each Annual Meeting. The Nominations and Governance Committee of the Board recommended to the Board of Directors that the number of directors be set at nine and that the individuals named in the table below be elected. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE THAT THE NUMBER OF DIRECTORS BE SET AT NINE AND THAT THE INDIVIDUALS NAMED IN THE TABLE BELOW BE ELECTED**. Under applicable Minnesota law and the Company's bylaws, approval of the proposal to set the number of directors at nine requires the affirmative vote of the holders of the greater of (1) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (2) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting. A plurality of votes cast is required for the election of directors.

In the election of directors, each Proxy will be voted for each of the nominees listed below unless the Proxy withholds a vote for one or more of the nominees. Each person elected as a director shall serve for a term of one year and until his or her successor is duly elected and qualified, or until his or her earlier death, resignation, removal or disqualification. All of the nominees are members of the present Board. All directors were elected to the Board by the shareholders. If any of the nominees should be unable to serve as a director by reason of death, incapacity or other unexpected occurrence, the Proxies solicited by the Board shall be voted by the proxy representatives for such substitute nominee as is selected by the Nominations and Governance Committee, or, in the absence of such selection, for such fewer number of directors as results from such death, incapacity or other unexpected occurrence.

**Director Qualifications and Experience**

The Nominations and Governance Committee periodically assesses the skills and experience needed to properly oversee the short- and long-term interests of the Company. The Committee utilizes a variety of methods for identifying and evaluating nominees for director, with the ultimate goal of maintaining a well-rounded Board that functions collegially and independently. Candidates for the Board are considered and selected on the basis of outstanding achievement in their professional careers, experience, wisdom, personal and professional integrity, their ability to make independent, analytical inquiries, and their understanding of the business environment. Candidates must have the experience and skills necessary to understand the principal operational and functional objectives and plans of the Company, the results of operations and financial condition of the Company, and the position of the Company in its industry. Candidates must have a perspective that will enhance the Board s strategic discussions and be capable of and committed to devoting adequate time to Board duties. With respect to incumbent directors, the Nominations and Governance Committee also considers past performance on the Board and contributions to the Company.

While the Company does not have a formal diversity policy for board membership, the Company seeks directors who represent a mix of backgrounds and experiences that will enhance the quality of the Board of Directors deliberations and decisions. The Nominations and Governance Committee considers, among other factors, diversity with respect to perspectives, backgrounds, skills and experience in its evaluation of candidates for board membership. Such diversity considerations are discussed by the Nominations and Governance Committee in connection with the general qualifications of each potential nominee.

**Director Nominees**

The following table provides certain information with respect to the nominees for director. In addition, included in each nominee s biography below is an assessment of such nominee s skills and experiences that allow him or her to make a valuable contribution to the Board.

| Name | Age | Current Position(s) with Company |
|---|---|---|
| Thomas E. Oland | 71 | Chairman of the Board, Chief Executive Officer, and President |
| Roger C. Lucas, Ph.D. | 69 | Vice Chairman of the Board |
| Howard V. O Connell | 82 | Lead Independent Director |
| Randolph C. Steer, M.D., Ph.D. | 62 | Director |
| Robert V. Baumgartner | 56 | Director |
| Charles A. Dinarello, M.D. | 69 | Director |
| Karen A. Holbrook, Ph.D. | 69 | Director |
| John L. Higgins | 42 | Director |
| Roeland Nusse, Ph.D. | 62 | Director |

Thomas E. Oland has been a Director, Chairman of the Board, Chief Executive Officer and President of the Company since 1985. He also served as Treasurer of the Company from 1985 to 2010. Mr. Oland received his bachelor s degree in accounting from the University of Minnesota Duluth. Mr. Oland joined R&D Systems, Inc. (now a wholly-owned subsidiary of the Company) as President in July 1982. From 1977 to 1982, Mr. Oland was the founder and President of Thomas Oland and Associates, a management consulting firm of which R&D Systems was a client. Prior to founding Thomas Oland and Associates, Mr. Oland worked for nine years in the

Management Consulting Division of Touche Ross. Among other attributes, skills and qualifications, the Board believes Mr. Oland is qualified to serve as a Director of the Company because his thorough and extensive knowledge of the Company s operations, values and culture, as well as his deep understanding of the issues and complexities the Company faces, all of which make Mr. Oland a valuable director with critical analytical and strategic skills.

Roger C. Lucas, Ph.D. has been Vice Chairman and Senior Scientific Advisor to the Company s Board since 1995 and a Director since 1985. He holds a bachelor s degree in biology from St. Mary s College in Winona, Minnesota, and a Ph.D. in physiology/biochemistry from the Illinois Institute of Technology. He was a recipient of the National Institutes of Health pre- and post-doctoral fellowships and also served as Assistant Professor of Biochemistry at the State University of New York Medical School. Dr. Lucas is a private investor and currently a board member of Envoy Medical Corporation, ChemoCentryx, Inc. and Discovery Genomics, Inc. Dr. Lucas joined R&D Systems in 1980 as Head of Research. In 1985, he founded the Company s Biotechnology Division. From 1985 until his retirement in 1995, Dr. Lucas was Chief Scientific Officer, Executive Vice President and Secretary of the Company. Among other attributes, skills and qualifications, the Board believes Dr. Lucas is qualified to serve as a Director of the Company because of his scientific background, particularly given his experience as former Chief Scientific Officer of R&D Systems, and his knowledge of the Company and its markets.

Howard V. O Connell has served on the Company s Board since 1985 and as Lead Independent Director since 2010. Mr. O Connell has been a private investor since 1990. From 1969 to 1990, he served as Chairman, President and Treasurer of John G. Kinnard and Company, Incorporated, a securities broker-dealer. Among other attributes, skills and qualifications, the Board believes Mr. O Connell is qualified to serve as a Director of the Company because of his over 40 years of management and strategic experience as a successful investor, entrepreneur and executive.

Randolph C. Steer, M.D., Ph.D. has served on the Company s Board since 1990. Dr. Steer received his undergraduate degree in physiology and Ph.D. in pathobiology from the University of Minnesota and his medical degree from the Mayo Medical School. Dr. Steer is currently an independent biotechnology consultant. He served as President and Chief Operating Officer of Capstone Therapeutics Corp. from April 2006 to October 2011. Dr. Steer was elected to the Mayo Clinic Board of Trustees in November 2011. In the past five years, Dr. Steer also served as a director of BioCryst Pharmaceuticals, Inc. and Vital Therapies, Inc. Dr. Steer was a consultant to the pharmaceutical and biotechnology industries from 1989 to 2006, where he advised companies in business development, medical marketing and regulatory and clinical affairs. His prior experience includes service as Associate Director of Medical Affairs at Marion Laboratories and as Medical Director at Ciba Consumer Pharmaceuticals. Among other attributes, skills and qualifications, the Board believes Dr. Steer is qualified to serve as a Director of the Company because his medical and scientific backgrounds and his knowledge of the pharmaceutical and biotechnology industries provide valuable strategic insight.

Robert V. Baumgartner has served on the Company s Board since 2003. Mr. Baumgartner received a bachelor s degree in business administration from the University of Notre Dame. Mr. Baumgartner has served as Executive Chairman, Chief Executive Officer and Director of the Center for Diagnostic Imaging, Inc., an operator of diagnostic imaging centers, since 2001. Prior to 2001, he held numerous executive positions, including as Chief Executive Officer and Director of American Coating International, President and Chief Executive Officer of First Solar and President of the Apogee Glass Group. He began his professional career at KPMG LLC, an international accounting firm. Mr. Baumgartner currently serves on the board of Carestream Health, Inc. Among other attributes, skills and qualifications, the Board believes Mr. Baumgartner is qualified to serve as a Director of the Company because his extensive finance, accounting and general business background provides valuable strategic management and financial oversight skills.

Charles A. Dinarello, M.D. has served on the Company s Board since 2005. Dr. Dinarello received his medical degree from Yale University and his clinical training at the Massachusetts General Hospital. Since 1996, Dr. Dinarello has been a Professor of Medicine and Immunology at the University of Colorado School of Medicine in Aurora, Colorado. Previously, he was Professor of Medicine and Pediatrics at Tufts University School of Medicine and a staff physician at the New England Medical Center Hospital in Boston. From March 2009 to February 2011, Dr. Dinarello served as acting CEO of Omni Bio Pharmaceutical, Inc. In 1998, Dr. Dinarello was elected to the United States National Academy of Sciences. Dr. Dinarello is considered one of the founding fathers of cytokine biology, and regularly speaks at symposia around the world. For his research in the field, Dr. Dinarello has won numerous awards: the Novartis Prize in Immunology (2010), the Paul Ehrlich Prize

(2010), the Bonsfils-Staton Award (2010), the Royal Swedish Academy of Sciences Crafoord Prize in Polyarthritis (2009) and the Albany Medical Center Prize in Medical and Biomedical Research (the largest U.S. prize in medicine) (2009). Within the past five years, Dr. Dinarello has served as a director of Omni Bio Pharmaceutical, Inc. Among other attributes, skills and qualifications, the Board believes Dr. Dinarello is qualified to serve as a Director of the Company because his distinguished scientific background and his extensive experience with research organizations allow him to provide strategic guidance with regard to product development and the markets and customers we serve.

Karen A. Holbrook, Ph.D. has served on the Company s Board since 2007. Dr. Holbrook earned her bachelor s and master s degrees in zoology from the University of Wisconsin-Madison. She earned a Ph.D. in biological structure from the University of Washington School of Medicine, where she pursued postdoctoral training in the Department of Medicine, Division of Dermatology. Dr. Holbrook has served as Vice President for Research and Innovation, University of South Florida, since 2007. She served as President of The Ohio State University from 2002 to 2007. Dr. Holbrook previously served as Senior Vice President for Academic Affairs and Provost at The University of Georgia, as well as Professor of Cell Biology and Adjunct Professor of Anatomy and Cell Biology and Medicine at the Medical College of Georgia. Before that, Dr. Holbrook served at the University of Florida at Gainesville as Vice President for Research and Dean of the Graduate School, as well as Professor of Anatomy and Cell Biology and Medicine (Dermatology). Her earlier academic career was spent as a Professor of Biological Structure and Medicine at the University of Washington School of Medicine where she gained a national reputation for her expertise in human fetal skin development and genetic skin disease and was a National Institutes of Health (NIH) Merit awardee. She also served as Associate Dean for Scientific Affairs. Dr. Holbrook also serves on non-profit boards, such as the American Association for the Advancement of Science and the Association of American Medical Colleges, among others. In the past five years, Dr. Holbrook also served as a director for Huntington Bancshares Incorporated. Among other attributes, skills and qualifications, the Board believes Dr. Holbrook is qualified to serve as a Director of the Company because her scientific background and academic leadership provide valuable executive management and strategic insight.

John L. Higgins has served on the Company s Board since 2009. He graduated Magna Cum Laude with a bachelor s degree from Colgate University. Mr. Higgins has been President and Chief Executive Officer of Ligand Pharmaceuticals Incorporated since January 2007 and has been a member of Ligand s Board of Directors since March 2007. From 1997 until joining Ligand, Mr. Higgins was with Connetics Corporation, a specialty pharmaceutical company, as its Chief Financial Officer, and also served as Executive Vice President, Finance and Administration and Corporate Development at Connetics from January 2002 until its acquisition by Stiefel Laboratories, Inc. in December 2006. Mr. Higgins was previously a member of the executive management team at BioCryst Pharmaceuticals, Inc., a biopharmaceutical company. Currently, he is a Director of BioCryst and serves as Chairperson of its Audit Committee. Before joining BioCryst in 1994, Mr. Higgins was a member of the healthcare banking team of Dillon, Read & Co. Inc., an investment banking firm. Mr. Higgins also serves as Chairman of CoMentis, Inc., a biopharmaceutical company, and has served as a director of numerous public and private companies. Among other attributes, skills and qualifications, the Board believes Mr. Higgins is qualified to serve as a Director of the Company due to his combination of biopharmaceutical business, accounting and finance experience as well as his executive management experience, particularly with public companies.

Roeland Nusse, Ph.D. has served on the Company s Board since May 2010. Dr. Nusse earned a bachelor s degree in biology from the University of Amsterdam and a doctorate in molecular biology from the Netherlands Cancer Institute in 1980. He did his postdoctoral fellowship at the University of California, San Francisco. Dr. Nusse has served as Chairman of the Department of Developmental Biology at Stanford University since 2007. Dr. Nusse has been a professor or associate professor in the Department of Developmental Biology at Stanford University and an investigator at the Howard Hughes Medical Institute since 1990. He has also been the chair of the Department of Developmental Biology at Stanford since 2007. Dr. Nusse was previously at the Netherlands Cancer Institute (Amsterdam, The Netherlands) as a staff scientist and ultimately head of the Department of Molecular Biology. Dr. Nusse was elected to the United States National Academy of Sciences in April 2010. Dr. Nusse was previously named a member of the European Molecular Biology Organization in 1988, a member of the Royal Dutch Academy of Sciences in 1997 and a member of the American Academy of Arts and Sciences in 2001. Among other attributes, skills and qualifications, the Board believes Dr. Nusse is qualified to serve as a Director of the Company because his scientific research and academic background provide valuable strategic insight, including insight into the Company s customers and markets.

**VOTE REQUIRED**

The Board recommends that you vote FOR setting the number of directors at nine and that you vote FOR the nominees named above, as set forth in this Proposal #1 and #2. Under applicable Minnesota law and the Company's bylaws, approval of the proposal to set the number of directors at nine requires the affirmative vote of the holders of the greater of (1) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (2) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting. A plurality of votes cast is required for the election of directors.

## CORPORATE GOVERNANCE

**Board Independence**

The Board annually reviews the independence of each director. The Board has affirmatively determined that all of the Company s non-employee directors are independent as such term is defined in applicable law and regulations of the SEC and the Nasdaq Stock Market, LLC ( Nasdaq ). Mr. Oland is not independent based on his service as the Company s Chief Executive Officer and President. In making its independence determinations, the Board reviewed transactions and relationships between the director, or any member of his or her immediate family, and the Company and its subsidiaries based on information provided by the director, Company records and publicly available information. With regard to the independence of Dr. Nusse, the Board considered that the R&D Systems, Inc., subsidiary of the Company, paid Dr. Nusse $24,000 in fiscal 2012 for scientific consulting in addition to his director fees. In reviewing the independence of Dr. Dinarello, the Board considered that in fiscal 2012 the Company provided products valued at less than $50,000 to a laboratory at the University of Colorado School of Medicine directed by Dr. Dinarello for promotional and research purposes in a manner similar to the Company s relationship with other research laboratories.

**Board Leadership Structure**

Currently, the Board is led by the Chairman and Chief Executive Officer, Mr. Oland, a Lead Independent Director, Mr. O Connell, and strong independent committee chairs for each of the Audit, Executive Compensation and Nominations and Governance Committee.

The Board has determined that this structure is the most effective leadership structure for the Company. The Board believes that Mr. Oland is the director best situated to identify strategic opportunities for the Company and to focus the activities of the Board due to his full-time commitment to the business and his long tenure with the Company. The Board also believes that Mr. Oland s dual roles as Chairman of the Board and Chief Executive Officer promotes effective execution of the Company s business strategy and facilitates information flow between management and the Board. Mr. O Connell, as Lead Independent Director, presides at executive sessions of the Board and works with the Chairman of the Board to set Board agendas, in addition to other duties and responsibilities as may be directed by the Nominations and Governance Committee. The Board has determined that maintaining a Lead Independent Director, along with the independence of a majority of directors, helps maintain the Board s independent oversight of management and ensures that the appropriate level of independence is applied to all Board decisions. In addition, The Audit, Executive Compensation and Nominations and Governance Committees each consist entirely of independent directors.

**Risk Oversight**

Risk assessment and oversight is an integral part of Board and Committee deliberations throughout the year. The full Board regularly reviews strategic risks and opportunities facing the Company as a whole as well as those related to specific businesses. The Company s Board administers its risk oversight function directly and through its Committees.

The Audit Committee has oversight responsibility with respect to the Company s financial risk assessment and financial risk management. The Audit Committee meets regularly with management and the Company s independent auditors to review the Company s risk exposures, the potential financial impact those risks may have on the Company, the steps management takes to address those risks, and how management monitors emerging risks.

With respect to the Company s compensation plans and programs, the Executive Compensation Committee structures such plans and programs to balance risk and reward, while mitigating the incentive for excessive risk taking by the Company s executive officers and employees. The Executive Compensation Committee has concluded that the Company s compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

The Nominations and Governance Committee oversees the management of risks associated with the composition and independence of the Company s Board.

The full Board has oversight responsibility for all other risks, such as strategic, technology and operational risks. In performing their oversight responsibilities, the Board and Committees review policies and guidelines that senior management use to manage the Company s exposure to material categories of risk. In addition, the Board and Committees review the performance and functioning of the Company s overall risk management function and management s establishment of appropriate systems for managing risk, including strategic, technology and operational risks.

**Related Party Transactions**

In accordance with the Audit Committee Charter, the Audit Committee reviews and approves all related party transactions involving the Company s directors and executive officers or their immediate family members to determine whether such transactions meet applicable legal requirements and are appropriately disclosed in the Proxy Statement. The Company has adopted a written policy concerning the review of related party transactions, which provides that in determining whether to approve or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person s interest in the transaction. In addition, all directors and executive officers of the Company are subject to the Company s Code of Ethics and Business Conduct, which requires the directors and executive officers to inform the Company s legal counsel of any existing or proposed relationship or business transaction that could be, or might appear to be, a conflict of interest. Any reported transactions would be brought to the attention of the Audit Committee for review and disposition.

**Executive Compensation Committee Interlocks and Insider Participation**

The Executive Compensation Committee consists of Dr. Steer (Chair), Mr. O Connell, Mr. Baumgartner and Mr. Higgins. None of the members of the Executive Compensation Committee was an officer or employee of the Company during fiscal 2012, or was formerly an officer of the Company. None of the members of the Executive Compensation Committee had any relationship requiring disclosure as a related party transaction. No executive officer of the Company during fiscal 2012 served on the Executive Compensation Committee or the board of any company that employed any member of the Company s Executive Compensation Committee or Board of Directors.

**Code of Ethics and Business Conduct and Financial Fraud Hotline**

The Company has adopted a Code of Ethics and Business Conduct, which is applicable to all directors, officers and employees of the Company. A copy is available for review at the Company s website, www.techne-corp.com. The Company sponsors a financial fraud hotline that is available to all employees, operated on a confidential basis by a third party, and is supervised with full powers of investigation by the Audit Committee of the Board of Directors.

**Shareholder Communications with Directors**

Shareholders may communicate directly with the Board of Directors. All communications should be directed to the Company at 614 McKinley Place N.E., Minneapolis, MN 55413, and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors, for non-management directors, or for a particular director. Unless other distribution is specified, the communication will be forwarded to the entire Board. The communication will not be opened before being forwarded to the intended recipient, but it will go through normal security procedures.

**Directors Meetings and Committee Structure**

The Company s Board of Directors has three standing Committees: the Audit Committee, the Executive Compensation Committee and the Nominations and Governance Committee. All members of all Committees are independent as such term is defined in applicable law and regulations of the SEC and Nasdaq. In addition, all members of the Audit Committee meet the additional independence standards applicable to its members. The Company also has a Scientific Subcommittee, which was formed to advise the Board regarding research strategies, the scientific merit of technology or products involved in licensing and acquisition opportunities and emerging science and technology issues, as well as meet with and mentor key scientific employees. Members of the Scientific Subcommittee are Dr. Dinarello (Chair) and Drs. Lucas, Steer, Holbrook and Nusse.

The Board and Audit Committee have scheduled meetings each quarter prior to the Company s quarterly earnings release and may, from time-to-time, hold additional meetings. The Executive Compensation Committee and the Nominations and Governance Committee meet during the year as needed. During fiscal 2012, the Board held five meetings, the Audit Committee held six meetings, and the Executive Compensation Committee and the Nominations and Governance Committee each met officially once, but also conducted business via written actions in lieu of meetings and otherwise communicated informally throughout the year on various Board and committee matters. Executive sessions of independent directors (meetings of outside directors without any member of management present) are held in conjunction with regularly scheduled meetings of the Board. It is the policy of the Company that all directors should attend the Company s annual meeting of shareholders. All incumbent members attended the annual meeting in 2011.

Each of the directors attended 75% or more of the regularly scheduled quarterly Board meetings. Each director also attended 75% or more of the total number of meetings of the Board and Committees of which he or she was a member, with the exceptions of Mr. Higgins, who attended 69% of the meetings and Dr. Nusse, who attended 50% of the meetings. Mr. Higgins attended over 80% of the Board Meetings and Audit Committee meetings held during the fiscal year, but missed the sole Executive Compensation Committee meeting and the sole Nominations and Governance Committee meeting held during the fiscal year, both of which were held on the same day. Dr. Nusse missed the sole Nominations and Governance Committee meeting and a Board conference call held during the fiscal year.

In proposing the reelection of both Mr. Higgins and Dr. Nusse, the Nominations and Governance Committee considered their meeting attendance as well as their contributions and participation in various Board and committee matters throughout the year, including in executive sessions of the independent directors and communications outside of official meetings, and their significant scientific and business insights and contributions.

The Audit Committee, whose members are Mr. Baumgartner (Chair), Mr. O Connell, Dr. Steer and Mr. Higgins, operates under a written charter established by the Company s Board of Directors. A copy of the charter is available for review at the Company s website, www.techne-corp.com. The Audit Committee is responsible for the appointment, supervision and evaluation of the Company s independent registered public accounting firm and for reviewing the Company s internal audit procedures, the quarterly and annual financial statements of the Company and the results of the annual audit. The Audit Committee also approves all related party transactions, establishes and oversees the implementation of the Company s cash investment policy and monitors the Company s financial fraud hotline. The Board of Directors has determined that for fiscal 2012 all Audit Committee members are audit committee financial experts as such term is defined in Section 407 of the Sarbanes-Oxley Act and Item 407(d)(5) of Regulation S-K, and all such members are independent under applicable law and regulations of the SEC and Nasdaq. The Audit Committee s report is included in this Proxy Statement.

The Executive Compensation Committee, whose members are Dr. Steer (Chair), Mr. O Connell, Mr. Baumgartner and Mr. Higgins, determines compensation for executive officers of the Company. The Executive Compensation Committee operates under a written charter. A copy of the charter is available for review at the Company s website, www.techne-corp.com. The Executive Compensation Committee establishes both overall policies for executive compensation and reviews the performance of the executive officers. The Executive Compensation Committee works with Mr. Oland, the Chief Executive Officer of the Company, to establish performance goals for the other executive officers and, acting independently, establishes the performance goals for Mr. Oland. The Executive Compensation Committee determines the annual base compensation of all executive officers and awards bonuses, both cash and equity, to all executive officers based on performance. The Executive Compensation Committee also approves director compensation policies and practices. The Executive Compensation Committee s report is included in this Proxy Statement.

The Nominations and Governance Committee, chaired by Dr. Holbrook, is composed of all of the Company s independent directors, which are currently all directors except Mr. Oland. The Nominations and Governance Committee operates under a written charter. A copy of the charter is available for review at the Company s website, www.techne-corp.com. The functions of the Nominations and Governance Committee are to recruit well-qualified candidates for the Board, select persons to be proposed in the Company s proxy statement for election as directors at annual meetings of shareholders, determine whether each member of the Board is independent under applicable laws and regulations and establish governance standards and procedures to support and enhance the performance and accountability of management and the Board. The Nominations and Governance Committee assesses the appropriate size of the Board of Directors, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominations and Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominations and Governance Committee through current members of the Board of Directors, professional search firms, shareholders or other persons and may be considered at any point during the year.

The Nominations and Governance Committee will consider all nominees for director recommended by shareholders of the Company, applying the same criteria as is used for nominees recommended by other sources. Recommendations may be sent to the Nominations and Governance Committee at the Company s address: 614 McKinley Place N.E., Minneapolis, MN 55413. The Nominations and Governance Committee has recommended to shareholders the re-election of the incumbent directors of the Company.

**PROPOSAL #3: ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION**

The Company is providing shareholders an advisory vote on named executive compensation. This vote is required under Section 14A of the Securities Exchange Act of 1934 (the Exchange Act ).

This vote is not intended to address any specific item of compensation, but rather our overall compensation policies and procedures relating to the named executive officers. Our Executive Compensation Committee has described our compensation philosophy in the Executive Compensation Discussion and Analysis contained in this Proxy Statement. Shareholders are urged to read the Executive Compensation Discussion and Analysis, which also discusses how the Company s compensation policies and procedures implement the Company s compensation philosophy, as well as the 2012 Summary Compensation Table and other related tables and narrative disclosure, that describe the compensation of the Chief Executive Officer, the Chief Financial Officer and the other named executive officer of the Company in fiscal 2012. The Executive Compensation Committee and the Board believe the policies and procedures articulated in the Executive Compensation Discussion and Analysis are effective in implementing the Company s compensation philosophy and in achieving its goals and that the compensation of the named executive officers in fiscal 2012 reflects and supports these compensation policies and procedures.

Shareholders are being asked to vote on the following resolution:

**RESOLVED**, the shareholders of Techne Corporation approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Executive Compensation Discussion and Analysis, compensation tables, and related disclosures contained in the executive compensation section of the Proxy Statement for the 2012 Annual Meeting of Shareholders.

This advisory vote on named executive officer compensation, commonly referred to as a say-on-pay advisory vote, is not binding on the Board. However, the Board and Executive Compensation Committee will take into account the result of the vote when determining future executive compensation arrangements. Consistent with the results of the shareholder advisory vote held at the 2011 Annual Meeting of Shareholders regarding the frequency of say-on-pay votes, the Board has adopted a policy providing for annual say-on-pay advisory votes.

**VOTE REQUIRED**

The Board recommends that you vote FOR the adoption of the resolution set forth in this Proposal #3. Under applicable Minnesota law and the Company s bylaws, this proposal requires the affirmative vote of the holders of the greater of (1) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (2) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting.

**PROPOSAL #4: AMENDMENT OF THE COMPANY S**

**RESTATED ARTICLES OF INCORPORATION**

The Board has approved, and recommends shareholder approval of, an amendment to the Company s Restated Articles of Incorporation to require that directors receive a majority of the votes cast in order to be elected to the Board in uncontested director elections.

Currently, the members of the Board are elected by a plurality of the votes present in person or by proxy at a meeting. Minnesota law provides that directors are elected by a plurality of the votes present in person or by proxy at a meeting, unless otherwise provided in a corporation s articles of incorporation. The Board believes that the implementation of the majority vote standard will provide the Company s shareholders with a greater voice in director elections.

The amendment to the Restated Articles of Incorporation operates as follows:

Subject to the rights, if any, of holders of any preferred stock of the Company, each director shall be elected at a meeting of shareholders by the vote of a majority of the votes cast with respect to the director.

However, in a contested election of directors, meaning the number of nominees exceeds the number of directors to be elected, the directors will continue to be elected by a plurality of the votes present in person or by proxy at the meeting.

For purposes of the majority voting standard, a majority of the votes cast means that the votes entitled to be cast by the holders of all the then outstanding shares of voting stock of Techne that are voted for a director must exceed the shares voted against the director.

If approved by the Company s shareholders, the amendment will be effected by adding a new Article 8 to the Restated Articles of Incorporation. The full text of Article 8 is attached to these materials as Appendix A. If approved, the majority voting standard will be effective following the 2012 Annual Meeting.

Under Minnesota law, an incumbent director who does not receive the requisite vote continues to serve until his or her successor is elected. Accordingly, if the proposal to amend the Restated Articles of Incorporation is approved, the Board will also adopt a policy that requires incumbent directors who do not receive a majority of the votes cast FOR their election to offer to tender their resignation to the Company s Nominations and Governance Committee. Under the policy, the Board, taking into account the recommendation of the Nominations and Governance Committee, would act on the tendered resignation and publicly disclose its decision within 90 days after the date of the certification of the election results. The Nominations and Governance Committee may consider any factors that it deems relevant and appropriate. Any director who has offered to tender his or her resignation will not participate in the decision with respect to his or her resignation. If the director s resignation is not accepted by the Board, the director will continue to serve until the next annual meeting and until his or her successor is duly elected.

**VOTE REQUIRED**

The Board recommends a vote **FOR** the amendment of the Company s Restated Articles of Incorporation to include a provision requiring the election of directors by majority vote in uncontested elections. Under applicable Minnesota law and the Company s bylaws, this proposal requires the affirmative vote of the holders of the greater of (1) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (2) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting.

## PROPOSAL #5: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Board has appointed KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending June 30, 2013. KPMG LLP has served as the Company s independent registered public accounting firm since 2003. Shareholder approval of this appointment is not required, but the Board is submitting the selection of KPMG LLP for ratification in order to obtain the views of its shareholders. If the appointment is not ratified, the Audit Committee will reconsider its selection. Even if the appointment is ratified, the Audit Committee, which is solely responsible for appointing and terminating the Company s independent registered public accounting firm, may in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company s shareholders. Representatives of KPMG LLP are expected to be present at the Annual Meeting and will be given an opportunity to make a statement and to respond to appropriate questions by shareholders.

Shareholders are being asked to vote on the following resolution:

**RESOLVED**, the shareholders of Techne Corporation ratify the appointment of KPMG LLP as Independent Auditor of the Company s financial statements for the fiscal year ending June 30, 2013.

**VOTE REQUIRED**

The Board recommends a vote **FOR** the ratification of the appointment of KPMG LLP as Independent Auditor for Fiscal 2013.

## DIRECTOR COMPENSATION

Directors who are not employees of the Company were compensated for the year ended June 30, 2012 as follows:

| Name | Fees Earned or Paid in Cash (1) | Option Awards (2) | Total |
|---|---|---|---|
| Roger C. Lucas, Ph.D. | $ 25,000 | $ 78,400 | $ 103,400 |
| Howard V. O Connell | 28,000 | 78,400 | 106,400 |
| Randolph C. Steer, M.D., Ph.D. | 28,000 | 78,400 | 106,400 |
| Robert V. Baumgartner | 28,000 | 78,400 | 106,400 |
| Charles A. Dinarello, M.D. | 25,000 | 78,400 | 103,400 |
| Karen A. Holbrook, Ph.D. | 26,000 | 78,400 | 104,400 |
| John L. Higgins | 28,000 | 78,400 | 106,400 |
| Roeland Nusse, Ph.D. (3) | 25,000 | 78,400 | 103,400 |

(1) Amounts consist of the annual retainer and meeting fees for services as members of the Company s Board of Directors. For further information concerning such fees, see information following this table.

(2) Amounts represent the total fair value of equity-based compensation for stock option awards granted in fiscal 2012 calculated in accordance with the Financial Accounting Standards Board s Accounting Standards Codification (ASC) Topic 718. Assumptions used in the calculation of these amounts are described in Note J to the Company s audited financial statements for the fiscal year ended June 30, 2012, included in the Company s Annual Report on Form 10-K that was filed with the SEC on August 29, 2012. Pursuant to the Company s 2010 Equity Incentive Plan, each of the above directors received an automatic option grant for 5,000 shares of Company Common Stock on the date of the 2011 Annual Shareholder Meeting. As of June 30, 2012, the following non-employee directors held options to purchase the following number of shares of the Company s Common Stock: Dr. Lucas 35,000; Dr. Steer 25,000; Mr. Baumgartner 35,000; Dr. Dinarello 36,500; Dr. Holbrook 35,000; Mr. Higgins 25,000; Dr. Nusse 20,000; Mr. O Connell 10,000. Family trusts, of which Mr. O Connell is a trustee and beneficiary, held options to purchase 30,000 shares as of June 30, 2012.

(3) The Company s R&D Systems, Inc. subsidiary paid Dr. Nusse $24,000 in fiscal 2012 for scientific consulting in addition to his director fees.

Fees for non-employee directors include $25,000 per year for service on the Board and Committees of the Board. Directors are paid an additional $1,000 for each meeting of the Board other than its regularly scheduled quarterly meetings and for each meeting of a Committee on which the director serves other than Committee meetings held in conjunction with a meeting of the full Board. If appointed to the Board or retired during the fiscal year, the non-employee director receives a prorated annual fee.

Under the Company s 2010 Equity Incentive Plan, non-employee directors automatically receive options to purchase 5,000 shares of Company Common Stock upon each re-election to the Board. The options have a term of 10 years and vest immediately. Upon initial election or appointment to the Board, new non-employee directors receive options, which vest immediately, for 5,000 shares of the Company s Common Stock prorated based on the time remaining until the next annual meeting of shareholders. All non-employee directors elected at the Company s 2012 Annual Meeting of Shareholders will receive options to purchase 5,000 shares of Common Stock with an exercise price equal to the fair market value on the date of the 2012 Annual Meeting.

## PRINCIPAL SHAREHOLDERS

The following table provides information concerning the only persons, other than Thomas E. Oland, known to the Company to be the beneficial owners of more than 5% of the Company s outstanding Common Stock as of August 31, 2012:

| Name and Address of Beneficial Owner | Amount and Nature of Shares Beneficially Owned | Percent of Class |
|---|---|---|
| Morgan Stanley<br>1585 Broadway<br>New York, NY 10036 | 3,718,050 (1) | 10.1% |
| BlackRock, Inc.<br>40 East 52nd Street<br>New York, NY 10022 | 2,006,154 (2) | 5.4% |

(1) Morgan Stanley reported its beneficial ownership on a Schedule 13G/A filed with the Securities and Exchange Commission ( SEC ) on March 8, 2012. The filing indicates that as of February 8, 2012, Morgan Stanley had sole voting power over 3,620,520 shares, shared voting power over no shares, sole dispositive power over 3,718,050 shares, and shared dispositive power over no shares.

(2) BlackRock, Inc. reported its beneficial ownership on a Schedule 13G/A filed with the SEC on February 8, 2012. The filing indicates that as of December 30, 2011, BlackRock, Inc. had sole voting power over 2,006,154 shares, shared voting power over no shares, sole dispositive power over 2,006,154 shares, and shared dispositive power over no shares.

## MANAGEMENT SHAREHOLDINGS

The following table sets forth the number of shares of the Company s Common Stock beneficially owned as of August 31, 2012, by each executive officer of the Company named in the Summary Compensation Table (the named executive officers ), by each director and by all directors and executive officers (including the named executive officers) as a group. Shares beneficially owned by Mr. Oland constitute 4.2% of total shares outstanding (or 5.7%, when including Stock Bonus Plan shares). Each other individual beneficially owns less than one percent of total shares outstanding, plus shares subject to options exercisable by him or her. As a group, executive officers and directors beneficially own 6.9% of total shares outstanding.

| ne of Director or Executive Officer | Number of Shares Beneficially Owned ( |
|---|---|
| mas E. Oland | 1,543,894 (2) |
| er C. Lucas, Ph.D. | 36,456 (3)(4 |
| ward V. O Connell | 130,639 (3)(4 |

Because we were not meeting our profit objectives, we announced restructuring plans that include rationalization of sites, t reductions, process improvements and organizational streamlining. We began our restructuring efforts in the second arter of fiscal year 2007 and our plans call for the remaining restructuring initiatives to be phased in over an 18 month iod with all initiatives implemented by December 31, 2008, the end of the first quarter of our 2009 fiscal year. When npleted, the restructuring plans will include the consolidation, closure or sale of 13 sites and 2 inpatient units and uctions in force at both the Corporate Headquarters and site locations. We anticipate the benefit from these cost cutting asures to result in approximately $45.0 million in annualized gross cost savings which will be partially offset by uctions in revenue of approximately $16.0 million due to site consolidations,

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sures or sales resulting in annual net savings of approximately $29.0 million. We estimate the cost of implementing these tructuring plans to be approximately $5.4 million including $2.3 million for lease termination payments, $1.9 million for erance payments, $0.4 million for payment of miscellaneous site relocation expenses and $0.8 million of non-cash pense for the write off of fixed assets at closed locations. The number of programs closed through June 30, 2007 follows:

| | Three months ended June 30, 2007 | Nine months ended June 30, 2007 |
|---|---|---|
| spice programs closed | 1 | 5 |
| atient units closed | 0 | 1 |
| al closures | 1 | 6 |

The following table summarizes total costs expensed for the restructuring program (in thousands):

| | Three months ended June 30, 2007 | Nine months ended June 30, 2007 |
|---|---|---|
| verance | $ 645 | $ 1,164 |
| ase termination | 62 | 474 |
| ner | 8 | 113 |
| al restructuring costs | $ 715 | $ 1,751 |

The following table summarizes activity related to the restructuring program accrual included in accrued expenses and er current liabilities (in thousands):

| | Three months ended June 30, 2007 | Nine months ended June 30, 2007 |
|---|---|---|
| ance at beginning of period | $ 430 | $ 0 |
| arged to sales, general & administrative expenses | 715 | 1,751 |
| ductions | (692) | (1,298) |
| ance at end of period | $ 453 | $ 453 |

The Company closed two additional hospice programs during the fourth quarter of fiscal year 2007. The estimated cost of sing these programs, which will be charged to expense in the fourth quarter of fiscal 2007, is expected to be proximately $0.2 million for severance, lease termination costs and fixed asset write offs.

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**finition of Terms**

used in this report, the terms listed below have the meanings as indicated.

**missions:** New admissions including re-admissions.

**erage daily census ( ADC ):** Total patient days for all patients divided by the number of days during the period.

**erage length of stay:** Total days of care for patients discharged during the period divided by the total patients discharged.

**scharges:** Total patients deceased or discharged from service.

**ding census**: All patients served on last day of period.

**patient days:** Total patient days in an acute care facility (hospital based or company owned) at general inpatient level of e.

**patient unit:** Patient care provided in a hospital or other facility when pain and other symptoms cannot be managed ectively in a home setting. In the inpatient units we operate, we care for our own patients and a limited number of other spice providers patients. In some of our programs we contract with other inpatient units to provide care for our patients.

**edian length of stay:** The midpoint of the total days of service provided to patients that were discharged during the iod.

**edicare Cap:** The limitation on overall aggregate payments made to a hospice for services provided to Medicare neficiaries during a Cap period that begins November 1 and ends October 31 each year, assessed on an individual provider mber basis.

**edicare Cap calculation:** A calculation made by our Medicare fiscal intermediary pursuant to applicable Medicare ulations to determine whether a hospice provider received any payment in excess of the Medicare Cap. The total dicare payments received under a given provider number for services provided to all Medicare hospice care beneficiaries ved within the provider number between each November 1 and October 31 is determined ( Total Payments ). The number Medicare beneficiaries admitted (adjusted for the portion of time served by another provider pro-ration ) at each hospice vider between September 28 of each year and September 27 of the following year is determined ( Beneficiaries ). The mber of Beneficiaries is multiplied by the per beneficiary Cap amount for the applicable Cap period ( Cap Amount ). If the tal Payments are greater than the Cap Amount, the provider must refund the difference.

**tient day**: A day we provide service to a patient.

**ogram:** A separate hospice location operated under the same management as other company hospices.

**ovider number:** Unique identifiers assigned by Medicare and Medicaid to their providers. Multiple locations can share same Medicare provider number.

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**VISTACARE, INC.**
**HIGHLIGHTS**

sults of Operations

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Twelve Months Ended September 30, 2006 | Nine Months Ended June 30, 2007 | Nine Months Ended June 30, 2006 |
|---|---|---|---|---|---|
| **tient Statistics:** | | | | | |
| erage Daily Census DC) | 5,089 | 5,213 | 5,218 | 5,109 | 5,206 |
| ding census on last day of iod | 5,137 | 5,265 | 5,256 | 5,137 | 5,265 |
| ient days | 463,060 | 474,408 | 1,904,667 | 1,394,834 | 1,421,375 |
| patient days (general patient) | 7,533 | 5,681 | 21,753 | 20,217 | 15,638 |
| missions | 4,252 | 4,368 | 17,006 | 12,628 | 12,932 |
| gnosis mix of admitted ients: | | | | | |
| Cancer | 32% | 32% | 32% | 32% | 31% |
| Alzheimers/Dementia | 12% | 12% | 12% | 13% | 13% |
| Heart disease | 17% | 19% | 19% | 17% | 19% |
| Respiratory | 8% | 9% | 9% | 9% | 9% |
| Failure to thrive/Rapid decline | 23% | 22% | 21% | 22% | 21% |
| All other | 8% | 6% | 7% | 7% | 7% |
| scharges | 4,233 | 4,289 | 17,233 | 12,732 | 13,150 |
| erage length of stay on charged patients | 110 | 109 | 110 | 111 | 112 |
| dian length of stay on charged patients | 27 | 29 | 30 | 29 | 30 |
| **gram site Statistics:** | | | | | |
| grams | 50 | 57 | 56 | 50 | 57 |
| patient units (included hin a program) | 5 | 5 | 5 | 5 | 5 |
| dicare provider numbers | 35 | 37 | 37 | 35 | 37 |
| grams by ADC size | | | | | |
| 0-60 ADC | 15 | 22 | 23 | 15 | 22 |
| 61-100 ADC | 16 | 16 | 16 | 15 | 16 |
| 101-200 ADC | 14 | 14 | 13 | 15 | 14 |
| 201+ ADC | 5 | 5 | 4 | 5 | 5 |
| **t patient revenue:** | | | | | |
| t patient revenue (in lions) | $ 59.9 | $ 59.9 | $ 236.0 | $ 179.9 | $ 175.5 |
| t patient revenue per day care | $ 129 | $ 126 | $ 124 | $ 129 | $ 123 |
| ient revenue payor % | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Medicare | 92.3% | 92.5% | 92.2% | 92.3% | 92.5% |
| Medicaid | 4.1% | 4.5% | 4.4% | 4.2% | 4.5% |
| vate insurers and managed care | 3.6% | 3.0% | 3.4% | 3.5% | 3.0% |
| vel of care % of patient enue | | | | | |
| Routine home care | 92.2% | 93.9% | 94.1% | 93.1% | 94.7% |
| General in-patient care | 6.8% | 5.0% | 4.9% | 6.0% | 4.3% |
| Continuous home care | 0.8% | 1.0% | 0.8% | 0.7% | 0.8% |
| Respite in-patient care | 0.2% | 0.1% | 0.2% | 0.2% | 0.2% |
| vel of care base Medicare diem reimbursement es in effect: | | | | | |
| Routine home care | $ 130.79 | $ 126.49 | $ 126.49 | $ 130.79 | $ 126.49 |
| General in-patient care | $ 581.82 | $ 562.69 | $ 562.69 | $ 581.82 | $ 562.69 |
| Continuous home care | $ 763.36 | $ 738.26 | $ 738.26 | $ 763.36 | $ 738.26 |
| Respite in-patient care | $ 135.30 | $ 130.85 | $ 130.85 | $ 135.30 | $ 130.85 |
| Increase in base rates | 3.4% | 3.7% | 3.7% | 3.4% | 3.7% |
| spice Medicare Cap per neficiary | $ 21,410 | $ 20,585 | $ 20,585 | $ 21,410 | $ 20,585 |
| crued Medicare Cap bility (in millions) | $ 12.0 | $ 15.4 | $ 9.8 | $ 12.0 | $ 15.4 |
| . Med Cap reduct to ient rev. (in millions) | $ 1.0 | $ 1.2 | $ 6.8 | $ 3.7 | $ 3.5 |
| dicare Cap paid (in lions) | $ 1.3 | $ 0.1 | $ 15.0 | $ 1.5 | $ 6.2 |
| owance for denials erve (in millions) | $ 3.6 | $ 2.7 | $ 2.2 | $ 3.6 | $ 2.7 |
| **penses: (in millions)** | | | | | |
| rsing home expenses | $ 12.6 | $ 12.0 | $ 48.8 | $ 36.8 | $ 35.6 |
| rsing home revenues | $ (10.8) | $ (11.0) | $ (44.4) | $ (32.1) | $ (33.1) |
| rsing home costs, net | $ 1.8 | $ 1.0 | $ 4.4 | $ 4.7 | $ 2.5 |

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The following table sets forth selected consolidated financial information as a percentage of net patient revenue for the iods indicated:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| t patient revenue | 100% | 100% | 100% | 100% |
| erating expenses: | | | | |
| ient care expenses: | | | | |
| aries, benefits and payroll taxes | 45.7% | 42.4% | 44.6% | 41.3% |
| armaceuticals | 5.2% | 5.0% | 5.3% | 4.9% |
| rable medical equipment | 4.7% | 4.7% | 4.6% | 4.8% |
| ner (including in-patient arrangements, nursing home ts, net, purchased services, travel and supplies) | 13.8% | 11.7% | 13.2% | 12.5% |
| tal patient care expenses | 69.4% | 63.8% | 67.7% | 63.5% |
| es, general and administrative expenses: | | | | |
| aries, benefits and payroll taxes | 19.9% | 21.1% | 20.4% | 20.5% |
| fice leases | 2.8% | 2.8% | 3.0% | 2.9% |
| ner (including severance, travel, marketing and aritable contributions) | 11.2% | 10.5% | 11.4% | 11.7% |
| tal sales, general and administrative expenses | 33.9% | 34.4% | 34.8% | 35.1% |
| preciation and amortization | 1.4% | 2.1% | 1.4% | 2.2% |
| ss on disposal of assets | 0.6% | 0.1% | 0.3% | 0.1% |
| in on sale of hospice program assets | | | 0.6% | |
| erating loss | (5.3)% | (0.4)% | (3.6)% | (0.9)% |
| n-operating income | 0.5% | 0.5% | 0.6% | 0.5% |
| ome tax (benefit) expense | (0.1)% | 0.4% | 0.1% | (0.0)% |
| t loss | (4.7)% | (0.3)% | (3.1)% | (0.4)% |

***ree Months Ended June 30, 2007, Compared to Three Months Ended June 30, 2006***

***t Patient Revenue***

Net patient revenue was unchanged at $59.9 million for the three months ended June 30, 2007 and 2006, respectively. t patient revenue per day of care increased to approximately $129 per day for the three months ended June 30, 2007 from proximately $126 per day for the three months ended June 30, 2006. Net patient revenue was positively impacted by:

- Medicare reimbursement rate increase of 3.4% effective October 1, 2006; and
- an increase in inpatient days, which have a high per diem rate, to 7,533 days for the three months ended June 30, 2007, from 5,681 days for the three months ended June 30, 2006.

t patient revenue was negatively impacted by:

- A $1.3 million increase in our allowance for denials. The allowance increase was due to an increase in our accounts receivable and the age of our billed and unbilled accounts receivable. Although we review all accounts receivable to determine if they can be collected, our methodology tends to increase the allowance as the accounts receivable age;
- a reduction in the number of hospice programs to 50 as of June 30, 2007 from 57 as of June 30, 2006; and
- a decrease in ADC of 124 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006.

We are subject to Medicare Cap limits based on the total amount of Medicare payments that will be made to each of our vider numbers. We actively monitor each of our programs, by provider number, as to their program specific admission, charge rate and average length of stay data in an attempt to determine whether they have the potential to exceed the ual Medicare Cap. When we determine that a provider number has the potential to exceed the annual Medicare Cap ed upon trends, we attempt to institute corrective action, such as a change in patient mix or increase in patient nissions. However, to the extent we believe our corrective action will not avoid a Medicare Cap charge, we estimate the ount that we could be required to repay Medicare following the end

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the Medicare Cap year, and accrue that amount in proportion to the number of months that have elapsed in the Medicare p year as a reduction to net patient revenue.

We recorded reductions to net patient revenue of $1.0 million and $1.2 million for the three months ended June 30, 2007 d 2006, respectively, for the estimated cost of exceeding the annual Medicare Cap. The $1.0 million reduction to net tient revenue for Medicare Cap for the three months ended June 30, 2007 adjusts our year to date Medicare Cap expense $3.7 million or 75% of the total estimated accrual for patient service dates during 2007, including pro-ration for estimated vices that these 2007 patients may receive from other hospice programs. Our Medicare Cap liability accrual as of June 30, 07 and September 30, 2006, was $12.0 million and $9.8 million, respectively.

We also record reductions to net patient revenue for estimated payment denials, contractual adjustments (such as fferences in payments by commercial payors) and subsequent changes to initial level of care determinations (made roactively by VistaCare staff after initial admission). We recorded reductions to net patient revenue for these types of justments of $1.1 million for the three months ended June 30, 2007 and an increase to net patient revenue of $0.2 million these types of adjustments in the three months ended June 30, 2006. The allowance increase was due to an increase in r accounts receivable and the age of our billed and unbilled accounts receivable. Although we review all accounts ceivables to determine if they can be collected, our methodology tends to increase the allowance as the accounts receivable e. Our allowance for denials on patient accounts receivable and room and board as of June 30, 2007 and September 30, 06 is $3.6 million and $2.2 million, respectively.

***tient Care Expenses***

Patient care expenses increased $3.4 million, or 8.9%, to $41.6 million for the three months ended June 30, 2007 from 8.2 million for the three months ended June 30, 2006. As a percentage of net patient revenue, patient care expenses reased to 69.4% for the three months ended June 30, 2007 from 63.8% for the three months ended June 30, 2006.

Patient care salary expense increased $1.3 million for the three months ended June 30, 2007 as compared to the three nths ended June 30, 2006 due mainly to wage increases and hiring additional patient care staff to enable us to continue viding high quality patient care. Health insurance costs increased $0.4 million and worker s compensation costs increased 3 million when compared to the same quarter in the prior year primarily due to increasing claims. Pharmaceutical pense increased $0.1 million when compared to the three months ended June 30, 2006 mainly due to price increases. leage increased $0.2 million when compared to the quarter ended June 30, 2006 mainly due to an increase in the mileage mbursement rate.

Another factor affecting patient care expenses was an increase in net room and board expenses of $0.8 million for the ee months ended June 30, 2007 as compared to the three months ended June 30, 2006. Nursing home revenue decreased approximately $0.2 million to $10.8 million for the three months ended June 30, 2007 from $11.0 million for the three nths ended June 30, 2006. Nursing home expenses totaled approximately $12.6 million and $12.0 million for the three nths ended June 30, 2007 and 2006, respectively. Nursing home costs, net were $1.8 million and $1.0 million for the ee months ended June 30, 2007 and 2006, respectively.

***les, General and Administrative Expenses***

Sales, general and administrative ( SG&A ) expenses decreased $0.3 million, or 1.5%, to $20.3 million for the three nths ended June 30, 2007 from $20.6 million for the three months ended June 30, 2006. As a percentage of net patient enue, SG&A expenses decreased to 33.9% for the three months ended June 30, 2007 from 34.4% for the three months led June 30, 2006.

SG&A expense was impacted during the quarter by implementation of our restructuring plans. Salary expense decreased 5 million when compared to the quarter ended June 30, 2006 primarily due to reductions in force implemented as part of r restructuring. Severance expense for the period increased $0.3 million over the same quarter last year also due to our uctions in force. In the quarter ended June 30, 2007, stock compensation expense decreased $0.6 million when compared the same quarter last year due to reductions in force and the change in our compensation philosophy to reduce stock nts. Expense for outside consultants increased $0.4 million over the quarter ended June 30, 2006 primarily due to our ed for temporary help. Worker s compensation costs increased $0.2 million when compared to the same quarter in the prior r primarily due to increasing claims.

***ss on Disposal of Assets***

In the quarter ended June 30, 2007 we wrote off $0.4 million of internally developed software that had become obsolete.

***ome Tax***

We record income taxes under the liability method as required by Financial Accounting Standards Board Statement
. 109,

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counting for Income Taxes. Due to our recent operating losses, we recorded a full valuation allowance which was equal our deferred tax assets, less the deferred tax liabilities expected to reverse and become taxable income, excluding tax ductible goodwill.

For the three months ended June 30, 2007, we had an income tax benefit of $0.1 million as compared to an income tax pense of $0.3 million for the three months ended June 30, 2006. Since we have a full valuation allowance established on net deferred tax assets, with the exception of indefinite life tax deductible goodwill, our fiscal 2007 tax provision nsists of state taxes where loss carry forwards do not exist, a benefit from a state net operating loss carry back and reases to our tax deductible goodwill deferred tax liability. In the quarter ended June 30, 2006 we had not established a uation allowance.

***ne months ended June 30, 2007, Compared to Nine months ended June 30, 2006***

***t Patient Revenue***

Net patient revenue increased $4.4 million, or 2.5%, to $179.9 million for the nine months ended June 30, 2007, as mpared to $175.5 million for the nine months ended June 30, 2006. Net patient revenue per day of care increased to proximately $129 per day for the nine months ended June 30, 2007 from approximately $123 per day for the nine months ded June 30, 2006. Overall increases in net patient revenue were due to:

- Medicare reimbursement rate increase of 3.4% effective October 1, 2006; and
- an increase in inpatient days, which have a high per diem rate, to 20,217 days for the nine months ended June 30, 2007, from 15,638 days for the nine months ended June 30, 2006.

These increases were partially offset by:

- A $0.8 million increase in our allowance for denials. The allowance increase was due to an increase in our accounts receivable and the age of our billed and unbilled accounts receivable. Although we review all accounts receivable to determine if they can be collected, our methodology tends to increase the allowance as the accounts receivable age;
- a reduction in the number of hospice programs to 50 as of June 30, 2007 from 57 as of June 30, 2006; and
- a decrease in ADC of 97 for the nine months ended June 30, 2007 compared to the nine months ended June 30, 2006.

We recorded reductions to net patient revenue of approximately $3.7 million and $3.5 million for the nine months ended ne 30, 2007 and 2006, respectively, for the estimated cost of exceeding the annual Medicare Cap limit. The $3.7 million uction to net patient revenue for Medicare Cap for the nine months ended June 30, 2007 represents 75% of the total imated accrual for patient service dates during 2007, including pro-ration for estimated services that these 2007 patients y receive from other hospice programs. Our Medicare Cap liability accrual as of June 30, 2007 and September 30, 2006, s $12.0 million and $9.8 million, respectively.

We also record reductions to net patient revenue for estimated payment denials, contractual adjustments (such as ferences in payments by commercial payors) and subsequent changes to initial level of care determinations (made roactively by VistaCare staff after initial admission). We recorded reductions to net patient revenue for these types of ustments of $2.4 million and $1.5 million for the nine months ended June 30, 2007 and 2006, respectively. The allowance rease was due to an increase in our accounts receivable and the age of our billed and unbilled accounts receivable. hough we review all accounts receivable to determine if they can be collected, our methodology tends to increase the owance as the accounts receivable age. Our allowance for denials on patient accounts receivable and room and board as of ne 30, 2007 and September 30, 2006 is $3.6 million and $2.2 million, respectively.

***tient Care Expenses***

Patient care expenses increased $10.3 million, or 9.2%, to $121.8 million for the nine months ended June 30, 2007 from 11.5 million for the nine months ended June 30, 2006. As a percentage of net patient revenue, patient care expenses reased to 67.7% for the nine months ended June 30, 2007 from 63.5% for the nine months ended June 30, 2006.

Patient care salary expense increased $5.0 million for the nine months ended June 30, 2007 as compared to the nine nths ended

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ne 30, 2006 due in part to wage increases and hiring additional patient care staff to enable us to continue providing high ality patient care. Salary expense was negatively affected by excess costs associated with revamping the Indiana programs lowing last year s decertification and the operation of three new inpatient units for the entire nine month period. Inpatient its have higher salary expense than hospice home care programs. Health insurance costs increased $2.0 million as mpared to the same nine month period in the prior year primarily due to increasing claims. Pharmaceutical expense reased $0.9 million in the nine months ended June 30, 2007 when compared to the nine months ended June 30, 2006 inly due to price increases and an increase in GIP days which have a higher pharmacy cost per day.

Another factor impacting patient care expenses was an increase in net room and board expenses of $2.2 million for the e months ended June 30, 2007 as compared to the nine months ended June 30, 2006. Nursing home revenue decreased by proximately $1.0 million to $32.1 million for the nine months ended June 30, 2007 from $33.1 million for the nine months ded June 30, 2006. Nursing home expenses totaled approximately $36.8 million for the nine months ended June 30, 2007 compared to $35.6 million for the nine months ended June 30, 2006. Nursing home costs, net were $4.7 million and 5 million for the nine months ended June 30, 2007 and 2006, respectively.

***es, General and Administrative Expenses***

SG&A expenses increased $0.8 million, or 1.3%, to $62.5 million for the nine months ended June 30, 2007 from .7 million for the nine months ended June 30, 2006. As a percentage of net patient revenue, SG&A expenses decreased 34.8% for the nine months ended June 30, 2007 from 35.1% for the nine months ended June 30, 2006.

Salary expense increased $0.3 million when compared to the nine month period ended June 30, 2006 primarily due to t increases however the increase over last year has declined and should continue to decline due to the reductions in force t we have instituted as part of our restructuring efforts. Severance expense related to our restructuring was $0.7 million the nine month period ended June 30, 2007 while lease buyout expense for programs closed in the restructuring totaled 4 million. These increases were offset by a reduction of $0.7 million for stock compensation expense, due in part to our uctions in force and the change in our compensation philosophy to reduce stock grants, a $0.2 million reduction in ocation expense and a $0.4 million reduction in bonus expense due to lower anticipated bonus payouts.

***ss on Disposal of Assets***

In the nine months ended June 30,2007 we wrote off $0.4 million of internally developed software that had become solete.

***in on Sale of Program Assets***

We recorded a $1.1 million gain on the sale of certain operating assets of our Cincinnati, Ohio program during the nine nths ended June 30, 2007. No such asset sales occurred in the nine months ended June 30, 2006.

***ome Tax***

For the nine months ended June 30, 2007, our income tax expense was $0.2 million as compared to a tax benefit of ,000 for the nine months ended June 30, 2006. Since we have a full valuation allowance established on our net deferred assets, excluding tax deductible goodwill, our fiscal 2007 tax provision consists of state taxes where loss carry forwards not exist, a benefit from a state net operating loss carry back and increases to our tax deductible goodwill deferred tax bility.

***uidity and Capital Resources***

We expect that our principal liquidity requirements will be for working capital, the development of new hospice grams, the development of new inpatient units, the acquisition of other hospice programs and capital expenditures. Other n working capital needs, these expenditures are at our election and we do not currently have material commitments for penditures in these areas. Based on our current working capital requirements and existing capital commitments, we expect t our existing funds and cash flows from operations will be sufficient to fund our principal liquidity requirements for at st the next twelve months. Our future liquidity requirements and the adequacy of our available funds will depend on many tors, including payment for our services, regulatory changes and compliance with new regulations, expense levels, future velopment of new hospice programs, future development of new inpatient units, acquisitions of other hospice programs l capital expenditures.

Because we were not meeting our profit objectives, we began a restructuring effort in the second quarter of fiscal year 07 that will be phased in over an 18 month period with all restructuring initiatives implemented by December 31, 2008, end of the first quarter of our 2009 fiscal year. We anticipate the benefit from this restructuring effort to result in proximately $45.0 million in annualized gross cost savings which will be partially offset by reductions in revenue of proximately $16.0 million due to site consolidations,

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sures or sales resulting in annual net savings of approximately $29.0 million. Currently, we estimate our future cash lays to be approximately $3.4 million to implement these initiatives. We anticipate all costs to be paid by June 30, 2008, end of the third quarter of our fiscal year 2008.

Our accounts receivable have increased and our cash has decreased when compared to the balances at year end ptember 30, 2006 due mainly to the timing of payments from Medicare. We have received Medicare Additional velopment Requests (ADR) from our third party intermediary Palmetto GBA. These periodic standard requests for ditional information on selected claims delay payment on the listed claims and all subsequent claims. After Palmetto GBA iews the additional information provided, these claims and future claims will be paid under normal payment terms. We mate the delay in accounts receivable payments to be approximately $8.2 million at June 30, 2007. This amount may rease in the future because the review process is continuing at between 8 to 13 programs. Any denials will be appealed.

As of June 30, 2007, we had cash and cash equivalents and short-term investments of $29.1 million, working capital of proximately $42.7 million and the potential ability to borrow up to $50.0 million under our revolving credit and term loan ility based on borrowing base calculations, subject to lender approval and certain other restrictions as described in more ail below in Debt .

*ne months ended June 30, 2007 compared to nine months ended June 30, 2006.*

Net cash used in operating activities was $12.7 million and $6.1 million for the nine months ended June 30, 2007 and 06, respectively. The increase in net cash used in operating activities occurred because the net loss for the nine months ded June 30, 2007 was $5.6 million compared to a net loss of $0.7 million in the nine months ended June 30, 2006. Also, a 1 million gain on sale of a hospice program occurred during the nine months ended June 30, 2007. No such gain occurred ring the nine months ended June 30, 2006. Increases in accounts receivable during the nine months ended June 30, 2007 re $3.6 million more than in the nine months ended June 30, 2006. These increases in cash used in operating activities re partially offset because payments for Medicare Cap assessments were $4.8 million lower in the period ended June 30, 07 than in the period ended June 30, 2006 due to the timing of annual payments.

Net cash provided by investing activities was $8.0 million for the nine months ended June 30, 2007 compared to 6 million of cash used in investing activities for the nine months ended June 30, 2006. Cash provided by net investment es was $7.6 million during the nine months ended June 30, 2007 while $0.5 million was used to purchase investments in nine months ended June 30, 2006. Cash provided by other assets was $1.3 million higher in the nine months ended e 30, 2007 than in the same period last year. Also, $1.2 million of cash was received from the sale of the Cincinnati spice program during the nine months ended June 30, 2007. No program sales occurred during the nine months ended e 30, 2006.

Net cash provided by financing activities was $0.7 million and $0.4 million for the nine months ended June 30, 2007 and 06, respectively. Cash provided by financing activities in both periods principally resulted from the exercise of employee ck options and employee stock purchases.

*bt*

In December 2004, we renewed our $30.0 million revolving line of credit and entered into a $20.0 million term loan eement (this total of $50.0 million is collectively referred to herein as the credit facility ). The credit facility is lateralized by substantially all of our assets, including cash, accounts receivable and equipment. Loans under the credit ility bear interest at an annual rate equal to the one-month London Interbank Borrowing Rate in effect from time to time s 3.0% 5.0%, depending upon our achieving certain financial ratios as described in the credit agreement. Accrued erest under the revolving line of credit and the term loan is due monthly.

Under the revolving line of credit, we may (upon satisfaction of certain conditions and lender s waiver of a covenant ault) borrow, repay and re-borrow an amount equal to the lesser of: (i) $30.0 million or (ii) 85% of the net value of gible accounts receivable. The revolving line of credit can be used for working capital and general corporate purposes, luding acquisitions. Under the $20.0 million term loan, borrowings are used for permitted acquisitions as defined in the dit agreement. The lender will permit term loans provided our pro forma Debt Service Coverage Ratio, as defined in the dit agreement, does not fall below the specified ratio (at June 30, 2007, we failed to meet the specified ratio). The turity date of the credit facility is December 22, 2009. As of June 30, 2007, there was no balance outstanding on the olving line of credit or on the term loan.

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The credit facility contains certain customary covenants including those that restrict our ability to incur additional ebtedness, pay dividends under certain circumstances, permit liens on property or assets, make capital expenditures, ke certain investments and prepay or redeem debt or amend certain agreements relating to outstanding indebtedness. cause of recent operating losses, we are not in compliance with the credit facility s debt service coverage ratio covenant l we would have to receive a lender waiver, which we have not requested, and complete certain administrative procedures order to borrow under the current terms of the credit facility.

**erest Rate Risk**

We do not expect our cash flow to be affected, to any significant degree, by a sudden change in market interest rates. We ve not implemented a strategy to manage interest rate market risk because we do not believe that our exposure to this risk naterial at this time. We invest excess cash balances in money market accounts with average maturities of less than days.

**yment, Legislative and Regulatory Changes**

We are almost exclusively dependent on payments from the Medicare and Medicaid programs. These programs are ject to statutory and regulatory changes, possible retroactive and prospective rate adjustments, administrative rulings, rate ezes and funding reductions. Reductions in amounts paid by these programs for our services or changes in methods or ulations governing payments for our services could have a material adverse affect on our net patient revenue, cash flow m operations and profitability.

**lation**

The healthcare industry is labor intensive. Historically, wages and other expenses increased during periods of inflation l labor shortages in the marketplace. In addition, suppliers pass along rising costs to us in the form of higher prices for the ods and services that we purchase. We have implemented control measures designed to curb increases in operating enses; however, we cannot predict our ability to cover or offset future cost increases.

**itical Accounting Policies**

There have been no changes to our critical accounting policies during the nine months ended June 30, 2007. Refer to our nual Report on Form 10-K for the fiscal year ended September 30, 2006 for a summary of our critical accounting icies.

**cent Accounting Pronouncements**

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial bilities Including an Amendment of FASB Statement No. 115 ( SFAS 159 ). Under SFAS 159, a company may elect to asure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair ue option has been elected are reported in earnings at each subsequent reporting date. If elected, SFAS 159 is effective for cal years beginning after November 15, 2007. We are currently assessing whether fair value accounting is appropriate for of our eligible items and have not yet determined the impact, if any, on our consolidated financial statements.

**ntractual Obligations**

The following table summarizes our significant contractual obligations at June 30, 2007, and the effect such obligations expected to have on our liquidity and cash flows in future periods. The total excludes amounts already recorded on our ance sheet as current liabilities as of June 30, 2007 (in thousands):

| | | Payments Due by Fiscal Year | | | |
|---|---|---|---|---|---|
| **ntractual Obligation** | **Total** | **2007 (1)** | **2008 - 2009** | **2010 - 2011** | **Thereafter** |
| erating lease obligations(2) | $23,537 | $1,813 | $13,440 | $7,178 | $1,106 |

Represents payments to be made during the period of July 2007 through

September 2007.

Changes from our 2006 Annual Report are due to leases for new inpatient units, certain lease extensions and lease terminations due to site closures.

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The expected timing and amount of payment of the obligations discussed above are estimated based on current ormation. Timing of payments and actual amounts may be different depending on changes to agreed-upon amounts for ne obligations.

For the purpose of this table, contracted obligations are defined as agreements that are enforceable and legally binding on staCare and that specify all significant terms, including fixed or minimum quantities to purchase and approximate timing the transaction.

**rward-Looking Statements**

Certain statements contained in this quarterly report on Form 10-Q and the accompanying tables, including statements h respect to VistaCare s anticipated growth in net patient revenue, organic patient census and diluted earnings per share, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words elieve, expect, hope, anticipate, plan, expectations, forecast, goal, targeted and similar expressions identify for tements, which speak only as of the date the statement was made. VistaCare does not undertake and specifically disclaims obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future nts or otherwise. These statements are based on current expectations and assumptions and involve various risks and certainties, which could cause VistaCare s actual results to differ from those expressed in such forward-looking statements. ese risks and uncertainties arise from, among other things, possible changes in regulations governing the hospice care ustry, periodic changes in reimbursement levels and procedures under Medicare and Medicaid programs, difficulties dicting patient length of stay and estimating potential Medicare reimbursement obligations, patient discharge rate, allenges inherent in VistaCare s growth strategy, the current shortage of qualified nurses and other healthcare fessionals, VistaCare s dependence on patient referral sources and other factors detailed under the caption Factors that y Affect Future Results or Risk Factors in VistaCare s most recent report on Form 10-K and its other filings with the curities and Exchange Commission. You are cautioned not to place undue reliance on such forward-looking statements l there are no assurances that the matters contained in such statements will be achieved.

**m 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and rates. We ve not entered into derivative or hedging transactions to manage any market risk. We do not believe that our exposure to rket risk is material at this time.

**m 4. Controls and Procedures.**

(a) *Evaluation of Disclosure Controls and Procedures.*

Our management, with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) luated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the curities Exchange Act) as of June 30, 2007. In designing and evaluating our disclosure controls and procedures, our nagement recognized that any controls and procedures, no matter how well designed and operated, can provide only sonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the t-benefit relationship of possible controls and procedures. Based on this evaluation, our CEO and CFO concluded that, as June 30, 2007, our disclosure controls and procedures were (1) designed to ensure that information required to be closed by us is accumulated and communicated to management, including our CEO and CFO, by others within our anization to allow timely decisions regarding required disclosure and (2) effective, in that they provide reasonable urance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange t is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange mmission s rules and forms.

(b) *Changes in Internal Controls.*

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) ler the Securities Exchange Act) that occurred during the period covered by this report that have materially affected, or reasonably likely to materially affect, our internal controls over financial reporting.

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## PART II OTHER INFORMATION

**m 1. Legal Proceedings.**

We are subject to a variety of claims and suits that arise from time to time in the ordinary course of our business. While nagement currently believes that resolving all of these matters, individually or in aggregate, will not have a material verse impact on our financial position or results of operations, the litigation and other claims that we face are subject to erent uncertainties and management s view of these matters may change in the future. Should an unfavorable final come occur, there exists the possibility of a materially adverse impact on our financial position, results of operations and h flows for the period in which the effect becomes probable and reasonably estimable.

**m 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, em 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2006, which could materially ect our financial condition, results of operations or future results. The risks described in our Annual Report on Form 10-K not the only risks we face. Additional risks and uncertainties not currently known or that are currently deemed to be material may also have a material adverse affect on our financial condition, results of operations and future results. There e been no material changes from the risk factors disclosed in the 2006 Form 10-k.

**m 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) *Sales of Unregistered Securities.* Not applicable.

(b) *Use of Proceeds* from *Registered Securities.* Not applicable.

(c) *Repurchases of Securities.* We did not repurchase any of our securities during the nine months ended June 30, 2007.

(d) *Restrictions Upon the Payment of Dividends.* We are prohibited under our credit facility from paying any cash idends if there is a default under the facility or if the payment of any cash dividends would result in default.

**m 3. Defaults Upon Senior Securities.**

Not applicable.

**m 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

**m 5. Other Information.**

Not applicable.

**m 6. Exhibits.**

*Exhibits*: The exhibits are listed in the Exhibit Index to this report and are incorporated herein.

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**SIGNATURES**

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

VISTACARE, INC.

te: August 8, 2007

By: /s/ Richard R. Slager

Richard R. Slager
President and Chief Executive Officer

te: August 8, 2007

By: /s/ Henry L. Hirvela

Henry L. Hirvela
Chief Financial Officer

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## EXHIBIT INDEX

| xhibit No. | Exhibit |
|---|---|
| 1 | Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14. |
| 2 | Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14. |
| 1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |