

HARVARD BIOSCIENCE INC  
Form 10-Q  
August 06, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2007

.. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-31923

\_\_\_\_\_  
**HARVARD BIOSCIENCE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

\_\_\_\_\_  
**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**04-3306140**  
(IRS Employer  
Identification No.)

**84 October Hill Road, Holliston, MA**  
(Address of Principal Executive Offices)

**01746**  
(Zip Code)

**(508) 893-8999**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell Company (as defined in Exchange Act Rule 12b-2).  YES  NO

### **APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 31, 2007, there were 30,619,897 shares of Common Stock, par value \$0.01 per share, outstanding.

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**HARVARD BIOSCIENCE, INC.**

**Form 10-Q**

**For the Quarter Ended June 30, 2007**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(unaudited, in thousands, except share and per share amounts)**

	June 30, 2007	December 31, 2006
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 8,969	\$ 9,357
Accounts receivable, net of allowance for doubtful accounts of \$341 and \$364, respectively	13,099	13,323
Inventories	12,728	10,743
Deferred income tax assets - current	149	149
Other receivables and other assets	2,260	2,401
Assets of discontinued operations - held for sale	13,614	17,312
<b>Total current assets</b>	<b>50,819</b>	<b>53,285</b>
Property, plant and equipment, net	4,731	4,610
Deferred income tax assets - non-current	695	695
Amortizable intangible assets, net	9,698	10,457
Goodwill and other indefinite lived intangible assets	24,267	23,962
Other assets	109	219
<b>Total assets</b>	<b>\$ 90,319</b>	<b>\$ 93,228</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Current liabilities:		
Accounts payable	\$ 3,533	\$ 4,490
Deferred revenue	308	238
Accrued income taxes payable	1,187	195
Accrued expenses	3,186	4,244
Other liabilities - current	498	451
Liabilities of discontinued operations	5,066	5,066
<b>Total current liabilities</b>	<b>13,778</b>	<b>14,684</b>
Long-term debt, less current installments	200	3,000
Deferred income tax liabilities - non-current	1,344	1,342
Other liabilities - non-current	2,342	2,319
<b>Total liabilities</b>	<b>17,664</b>	<b>21,345</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 5,000,000 shares authorized		

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Common stock, par value \$0.01 per share, 80,000,000 shares authorized; 35,280,681 and 35,223,192 shares issued and 30,619,897 and 30,562,408 shares outstanding, respectively	353	352
Additional paid-in-capital	177,262	176,034
Accumulated deficit	(111,279)	(110,009)
Accumulated other comprehensive income	6,987	6,174
Treasury stock, 4,660,784 common shares, at cost	(668)	(668)
<b>Total stockholders' equity</b>	<b>72,655</b>	<b>71,883</b>
 Total liabilities and stockholders' equity	 \$ 90,319	 \$ 93,228

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 20,410	\$ 18,187	\$ 39,525	\$ 35,557
Cost of product revenues	10,426	8,945	20,120	17,435
Gross profit	9,984	9,242	19,405	18,122
Sales and marketing expenses	2,553	2,356	5,023	4,637
General and administrative expenses	3,544	3,405	6,947	6,600
Research and development expenses	888	773	1,732	1,524
Amortization of intangible assets	444	418	886	830
Total operating expenses	7,429	6,952	14,588	13,591
Operating income	2,555	2,290	4,817	4,531
Other income (expense):				
Foreign exchange	21	99	45	114
Interest expense	(107)	(161)	(168)	(304)
Interest income	84	55	140	95
Other, net	(5)	(32)	(11)	(59)
Other income (expense), net	(7)	(39)	6	(154)
Income from continuing operations before income taxes	2,548	2,251	4,823	4,377
Income taxes	533	466	1,066	984
Income from continuing operations	2,015	1,785	3,757	3,393
Discontinued operations, net of tax	(3,781)	(2,109)	(5,027)	(3,177)
Net income (loss)	\$ (1,766)	\$ (324)	\$ (1,270)	\$ 216
Income (loss) per share:				
Basic earnings per common share from continuing operations	\$ 0.07	\$ 0.06	\$ 0.12	\$ 0.11
Discontinued operations	(0.12)	(0.07)	(0.16)	(0.10)
Basic earnings (loss) per common share	\$ (0.06)	\$ (0.01)	\$ (0.04)	\$ 0.01
Diluted earnings per common share from continuing operations	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.11
Discontinued operations	(0.12)	(0.07)	(0.16)	(0.10)
Diluted earnings (loss) per common share	\$ (0.06)	\$ (0.01)	\$ (0.04)	\$ 0.01
Weighted average common shares:				
Basic	30,588	30,506	30,578	30,499

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Diluted	31,437	31,039	31,416	31,095
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See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (1,270)	\$ 216
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Stock compensation expense	1,048	909
Depreciation	672	684
Impairment of assets	2,860	
Amortization of catalog costs	82	29
(Gain) loss on sale of property, plant and equipment	(12)	18
Amortization of intangible assets	886	830
Amortization of deferred financing costs	11	54
<b>Changes in operating assets and liabilities, net of effects of acquisitions:</b>		
Decrease in accounts receivable	2,230	1,207
(Increase) decrease in inventories	(1,917)	911
Decrease in other receivables and other assets	181	457
Decrease in trade accounts payable	(1,051)	(122)
Increase (decrease) in accrued income taxes payable	939	(391)
Decrease in accrued expenses	(1,166)	(707)
Increase (decrease) in deferred revenue	188	(297)
Increase (decrease) in other liabilities	(60)	61
<b>Net cash provided by operating activities</b>	<b>3,621</b>	<b>3,859</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(838)	(587)
Additions to catalog costs	(4)	(102)
Acquisitions, net of cash acquired		(1,118)
<b>Net cash used in investing activities</b>	<b>(842)</b>	<b>(1,807)</b>
<b>Cash flows from financing activities:</b>		
Repayments of debt	(2,800)	(2,021)
Net proceeds from issuance of common stock	181	127
<b>Net cash used in financing activities</b>	<b>(2,619)</b>	<b>(1,894)</b>
Effect of exchange rate changes on cash	48	(80)
<b>Increase in cash and cash equivalents</b>	<b>208</b>	<b>78</b>
Cash and cash equivalents at the beginning of period	9,751	9,771
<b>Cash and cash equivalents at the end of period</b>	<b>\$ 9,959</b>	<b>\$ 9,849</b>



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Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 207	\$ 359
Cash paid for income taxes, excluding refunds of \$802 and \$54, respectively	\$ 1,023	\$ 1,020

Note: The above statement of cash flows includes both continuing and discontinued operations. Cash and cash equivalents include \$8,969 held by continuing operations and \$990 held by discontinued operations as of June 30, 2007.

See accompanying notes to unaudited consolidated financial statements.

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**HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**1. *Basis of Presentation and Summary of Significant Accounting Policies***

*Basis of Presentation*

The unaudited consolidated financial statements of Harvard Bioscience, Inc. and its wholly owned subsidiaries (collectively the Company) as of June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The December 31, 2006 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present a fair statement of financial position as of June 30, 2007, results of operations for the three and six months ended June 30, 2007 and 2006 and cash flows for the six months ended June 30, 2007 and 2006, as applicable, have been made. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

As discussed in Note 4, the Company has decided to divest its Capital Equipment Business segment. Accordingly, the results of operations of this business segment have been reported as discontinued operations.

*Summary of Significant Accounting Policies*

The accounting policies underlying the accompanying unaudited consolidated financial statements are those set forth in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC.

**2. *Recently Issued Accounting Pronouncements***

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FAS 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FASB Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a material impact on our consolidated results of operations or financial position.

In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits reporting entities to choose to measure eligible financial assets or liabilities, which include marketable securities available-for-sale and equity method investments, at fair value at specified election dates, or according to a preexisting policy for specific types of eligible items. Unrealized gains and losses for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. We are in the process of evaluating the impact the adoption of SFAS No. 159 will have on our consolidated results of operations and financial position.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)****3. Stock-Based Compensation and Weighted Average Common Shares Outstanding**

The Company accounts for share-based payment awards in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, ( SFAS No.123(R) ), which was adopted as of January 1, 2006 using the modified prospective transition method. Stock-based compensation expense recognized under SFAS No. 123(R) for the three months ended June 30, 2007 and 2006 was \$0.6 million and \$0.5 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan. Stock-based compensation expense recognized under SFAS No. 123(R) for the six months ended June 30, 2007 and 2006 was \$1.0 million and \$0.9 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

*Employee Stock Purchase Plan*

In 2000, the Company approved a stock purchase plan. Under this plan, participating employees can authorize the Company to withhold a portion of their base pay during consecutive six-month payment periods for the purchase of shares of the Company's common stock. At the conclusion of the period, participating employees can purchase shares of the Company's common stock at 85% of the lower of the fair market value of the Company's common stock at the beginning or end of the period. Shares are issued under the plan for the six-month periods ending June 30 and December 31. Under this plan, 500,000 shares of common stock are authorized for issuance of which 232,384 shares were issued as of June 30, 2007. During the three and six months ended June 30, 2007, the Company issued 13,542 shares under the Employee Stock Purchase Plan. During the three and six months ended June 30, 2006, the Company issued 16,075 shares under the Employee Stock Purchase Plan.

*Stock Option Plans**1996 Stock Option and Grant Plan*

In 1996, the Company adopted the 1996 Stock Option and Grant Plan (the 1996 Stock Plan ) pursuant to which the Company's Board of Directors could grant stock options to employees, directors and consultants. The 1996 Stock Plan authorized grants of options to purchase 4,072,480 shares of authorized but unissued common stock. In 2000, the 1996 Stock Plan was replaced by the 2000 Stock Option and Incentive Plan. As of June 30, 2007, there were options to purchase 227,729 shares outstanding under the 1996 Stock Plan. During the three and six months ended June 30, 2007 and 2006, no shares were issued under the 1996 Stock Plan.

*Amended and Restated 2000 Stock Option and Incentive Plan*

The Amended and Restated 2000 Stock Option and Incentive Plan (the 2000 Plan and, together with the 1996 Stock Plan, the Stock Plans ) was originally adopted by the Board of Directors on October 26, 2000, approved by the stockholders on November 29, 2000, and amended by the Board of Directors on April 5, 2006. Such amendment to the 2000 Plan, which included an increase in the number of shares available thereunder by 2,000,000, was approved by the stockholders at the Company's 2006 Annual Meeting. The 2000 Plan permits the Company to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, unrestricted stock awards, performance shares and dividend equivalent rights. The Company has currently reserved 6,867,675 shares of common stock for the issuance of awards under the 2000 Plan. As of June 30, 2007, there were options to purchase 5,959,661 shares outstanding and 351,891 shares available for grant under the 2000 Stock Plan.

As of June 30, 2007 and 2006, incentive stock options to purchase 6,285,484 and 6,071,406 shares and non-qualified stock options to purchase 5,511,061 and 3,563,139 shares, respectively, had been granted to employees and directors under the Stock Plans. Generally, both the incentive stock options and the non-qualified stock options become fully vested over a four-year period, with one-quarter of the options vesting on each of the first four anniversaries of the grant date.

During the three and six months ended June 30, 2007, 1,062,000 stock options were granted to employees and directors at exercise prices equal to or greater than fair market value of the Company's common stock on the date of grant. During the three and six months ended June 30, 2006, 20,000 and 75,000 stock options, respectively, were granted to employees and directors at exercise prices equal to or greater than fair market value of the Company's common stock on the date of grant.



**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)***Distribution and Dilutive Effect of Options*

The following table illustrates the dilution (accretion) resulting from the grant of options and exercise of options, which is referred to as the grant dilution and exercise dilution, respectively, during the periods described below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Shares of common stock outstanding	30,619,897	30,528,052	30,619,897	30,528,052
Granted	1,062,000	20,000	1,062,000	75,000
Canceled/forfeited	(37,000)	(26,250)	(77,062)	(78,441)
Net options granted	1,025,000	(6,250)	984,938	(3,441)
Grant dilution (accretion) (1)	3.35%	-0.02%	3.22%	-0.01%
Exercised	35,483	13,337	43,947	30,192
Exercise dilution (2)	0.12%	0.04%	0.14%	0.10%

(1) The percentage for grant dilution is computed based on net options granted as a percentage of shares of common stock outstanding.

(2) The percentage for exercise dilution is computed based on net options exercised as a percentage of shares of common stock outstanding.

Basic income per share is based upon net income divided by the number of weighted average common shares outstanding during the period. The calculation of diluted net income per share assumes conversion of stock options into common stock using the treasury method. The weighted average number of shares used to compute basic and diluted earnings per share consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic	30,587,802	30,505,637	30,577,639	30,498,753
Effect of assumed conversion of employee and director stock options	849,437	533,556	838,156	595,878
Diluted	31,437,239	31,039,193	31,415,795	31,094,631

Excluded from the shares used in calculating the diluted earnings per common share in the above table are options to purchase approximately 3,716,049 and 3,451,801 shares of common stock for the three and six months ended June 30, 2007, respectively, as the impact of these shares would be anti-dilutive. Excluded from the shares used in calculating the diluted earnings per common share in the above table are options to purchase approximately 2,296,135 and 2,166,837 shares of common stock for the three and six months ended June 30, 2006, respectively, as the impact of these shares would be anti-dilutive.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)***General Option Information*

A summary of stock option transactions follows:

	<b>Options Available for Grant</b>	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance at December 31, 2004	701,862	3,968,171	\$ 5.66
Options granted	(683,500)	683,500	3.06
Options exercised		(48,139)	2.35
Options cancelled/forfeited	322,250	(322,250)	5.53
Additional shares reserved	13,526		
Balance at December 31, 2005	354,138	4,281,282	\$ 5.29
Approved by shareholders	2,000,000		
Options granted	(1,185,000)	1,185,000	4.36
Options exercised		(52,192)	2.47
Options cancelled/forfeited	167,691	(167,691)	5.81
Balance at December 31, 2006	1,336,829	5,246,399	\$ 5.09
Options granted	(1,062,000)	1,062,000	5.46
Options exercised		(43,947)	2.79
Options cancelled/forfeited	77,062	(77,062)	6.01
Balance at June 30, 2007	351,891	6,187,390	\$ 5.16

The Company has a policy of issuing stock out of its registered but unissued stock pool through its transfer agent to satisfy stock option exercises.

The following table summarizes information concerning currently outstanding and exercisable options as of June 30, 2007 (Aggregate Intrinsic Value in thousands):

Range of Exercise Price	Options Outstanding			Options Exercisable			
	Number Outstanding at June 30, 2007	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares Exercisable at June 30, 2007	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0.01-3.16	1,424,390	6.04	\$ 2.72	\$ 3,604	1,161,892	\$ 2.66	\$ 3,009
\$3.17-4.28	1,352,500	8.13	\$ 4.02	1,664	596,253	\$ 3.84	841
\$4.29-5.25	804,000	8.79	\$ 4.82	346	139,500	\$ 4.63	86
\$5.26-7.20	1,280,500	7.76	\$ 6.19		505,500	\$ 7.14	
\$7.21-10.00	1,326,000	6.16	\$ 8.15		1,077,000	\$ 8.14	
\$0.01-10.00	6,187,390	7.23	\$ 5.16	\$ 5,614	3,480,145	\$ 5.29	\$ 3,936

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The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$5.25 as of June 30, 2007, which would have been received by the option holders had all option holders exercised their options as of that date. The aggregate intrinsic value of options exercised for the three months ended June 30, 2007 and 2006, respectively, was approximately \$0.08 million and \$0.02 million, respectively. The aggregate intrinsic value of options exercised for the six months ended June 30, 2007 and 2006, respectively, was approximately \$0.1 million and \$0.07 million, respectively. The total number of in-the-money options that were exercisable as of June 30, 2007 was 1,897,645.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)***Valuation and Expense Information under SFAS No. 123(R)*

Stock-based compensation expense related to employee stock options and the employee stock purchase plan under SFAS No. 123(R) for the three and six months ended June 30, 2007 and 2006, respectively, was allocated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cost of sales	\$ 11	\$ 10	\$ 20	\$ 20
Sales and marketing	30	30	56	58
General and administrative	533	372	939	737
Research and development	2	3	3	6
Discontinued operations	16	56	30	88
Total stock-based compensation	\$ 592	\$ 471	\$ 1,048	\$ 909

The Company did not capitalize any stock-based compensation. No significant tax benefit on the stock-based compensation was recorded in the three and six months ended June 30, 2007 and 2006 because we have established a valuation allowance against our net deferred tax assets.

The weighted-average estimated value of employee stock options granted during the three and six months ended June 30, 2007 was \$3.68 per share and the weighted-average estimated value of employee stock options granted during the three and six months ended June 30, 2006 was \$3.00 per share and \$3.18 per share, respectively, using the Black Scholes option-pricing model with the following weighted-average assumptions:

	Three and Six Months Ended June 30,	
	2007	2006
Volatility	70.56%	76.87%
Risk-free interest rate	4.61%	5.09%
Expected holding period	6.25 years	6.25 years
Dividend yield	0.00%	0.00%

The Company used historical volatility to calculate its expected volatility as of June 30, 2007. Historical volatility was determined by calculating the mean reversion of the daily adjusted closing stock price.

The risk-free interest rate assumption is based upon observed Treasury bill interest rates (risk free) appropriate for the term of the Company's employee stock options.

The Company calculated expected life of employee stock options utilizing the simplified method as defined by Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB No. 107). The simplified method averages an award's weighted average vesting period and its contractual term. The vesting period is generally 4 years and the contractual life is 10 years.

Stock-based compensation expense recognized in the Consolidated Statement of Operations for the three and six months ended June 30, 2007 and 2006, is based on awards ultimately expected to vest and has been reduced for annualized estimated forfeitures of 2.84% and 3.64%, respectively. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.





**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)****4. Discontinued Operations**

In July 2005, we announced plans to divest our Capital Equipment Business segment. The decision to divest this business was based on the fact that market conditions for the Capital Equipment Business segment have been such that this business has not met our expectations and the decision to focus our resources on our Apparatus and Instrumentation Business segment. As a result, we began reporting our Capital Equipment Business segment as a discontinued operation in the third quarter of 2005.

Prior to being classified as a discontinued operation, during the second quarter of 2005, the asset groups that comprise the Company's Capital Equipment Business segment experienced a significant decrease in revenues and operating profit margins. The Company believed the decrease in revenues was caused by a general market decrease in demand for capital equipment, excess capacity of certain genomics equipment in the market place, and new applications for certain products had not developed as previously anticipated. These factors led the Company to revise its expectations of future revenues and operating profit margins for the Capital Equipment Business segment. As a result, with the assistance of third-party independent appraisers, the Company re-evaluated the long-lived assets associated with these asset groups in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and determined that certain intangible assets within these asset groups were impaired as of June 30, 2005. The Company used an income approach to determine the fair values of the long-lived assets tested for impairment and recorded abandonment and impairment charges within the Capital Equipment Business segment totaling approximately \$8.1 million for long-lived assets during the second quarter of 2005. These abandonment and impairment charges were classified within discontinued operations, net of tax for the year ended December 31, 2005.

Also, as a result of the factors described above, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company, with the assistance of third-party independent appraisers, re-evaluated the goodwill associated with the Genomic Solutions and Union Biometrica reporting units for impairment as of June 30, 2005. As a result of this goodwill impairment testing, the Company recorded impairment charges within the Capital Equipment Business segment of approximately \$9.3 million for goodwill during the second quarter of 2005. The Company used a combination of an income approach and a market approach to determine the fair value of its Genomic Solutions and Union Biometrica reporting units. These impairment charges were classified within discontinued operations, net of tax for the year ended December 31, 2005.

During the fourth quarter of 2005, certain product lines in the Capital Equipment Business segment did not meet the Company's revenue forecasts and expectations. The Company believed that the further decline in revenues was due to the relative high price and nature of the products sold by the Capital Equipment Business segment, which customers, particularly distributors, would not be promoting and purchasing such products due to the uncertain future of the business. This led to a further reduction in the Company's expectation of future revenues in the Capital Equipment Business segment. As a result, the Company re-evaluated the goodwill included in this segment in accordance with SFAS No. 142, as well as the fair value of the disposal group in accordance with SFAS No. 144. As a result, an additional goodwill impairment charge of approximately \$7.9 million and a write-down of long-lived assets of approximately \$3.4 million was recorded during the fourth quarter of 2005. The Company used a combination of income and market approaches to determine the fair value of the disposal group.

During the year ended December 31, 2006, the Company utilized a market approach and re-evaluated the fair value less costs to sell of the assets that comprise the Capital Equipment Business segment. Based on management's evaluation, additional asset impairment charges of approximately \$3.9 million were recorded during 2006.

During the quarter ended June 30, 2007, the Company utilized the terms of a proposed agreement to purchase substantially all of the assets that comprise the Capital Equipment Business segment to re-evaluate the fair value less costs to sell these assets. The proposed agreement included contingent consideration from an earn-out agreement for which no value has been ascribed since realization is not assured. Based on management's evaluation, additional asset impairment charges of approximately \$2.9 million were recorded during the second quarter ended June 30, 2007.

The above proposed agreement is not a definitive agreement for the sale of the Capital Equipment Business segment. There can be no assurances that the Company will sell this portion of its Capital Equipment Business segment pursuant to the terms of this proposed agreement or at all.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)**

Operating results from our Capital Equipment Business segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in thousands)			
Total revenues	\$ 3,602	\$ 4,744	\$ 7,383	\$ 9,238
Pretax loss	(3,713)	(2,017)	(5,028)	(3,189)
Income tax	68	92	(1)	(12)
Net loss	(3,781)	(2,109)	(5,027)	(3,177)

Assets and liabilities of our Capital Equipment Business segment were as follows:

	June 30, 2007	December 31, 2006
	(in thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 990	\$ 394
Accounts receivable, net	3,573	5,354
Inventories	7,832	8,134
Other assets	1,219	1,893
Long-lived assets		1,537
<b>Total assets</b>	<b>\$ 13,614</b>	<b>\$ 17,312</b>
<b>Liabilities</b>		
<b>Total liabilities</b>	<b>\$ 5,066</b>	<b>\$ 5,066</b>

**5. Goodwill and Other Intangible Assets**

Intangible assets consist of the following:

	June 30,		December 31,		Weighted Average Life (a)
	2007		2006		
	(in thousands)				
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	
<b>Amortizable intangible assets:</b>					
Existing technology	\$ 11,988	\$ (5,387)	\$ 11,777	\$ (4,754)	7.0 years
Tradename	920	(465)	920	(434)	7.6 years
Distribution agreement/customer relationships	4,753	(2,116)	4,753	(1,811)	6.7 years
Patents	9	(4)	9	(3)	8.8 years

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Total amortizable intangible assets	\$ 17,670	\$ (7,972)	\$ 17,459	\$ (7,002)
<b>Unamortizable intangible assets:</b>				
Goodwill	\$ 23,209		\$ 22,906	
Other indefinite lived intangible assets	1,058		1,056	
Total goodwill and other indefinite lived intangible assets	\$ 24,267		\$ 23,962	
Total intangible assets	\$ 41,937		\$ 41,421	

(a) Weighted average life is as of June 30, 2007.

The change in the carrying amount of goodwill for the six months ended June 30, 2007 is as follows:

	<b>(in thousands)</b>
Balance at December 31, 2006	\$ 22,906
Effect of change in foreign currencies	303
Balance at June 30, 2007	\$ 23,209

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)**

Intangible asset amortization expense from continuing operations was \$0.4 million for the three months ended June 30, 2007 and 2006, respectively. Intangible asset amortization expense from continuing operations was \$0.9 and \$0.8 million for the six months ended June 30, 2007 and 2006, respectively. Amortization expense of existing amortizable intangible assets is estimated to be \$1.8 million for the year ending December 31, 2007, \$1.7 million for the year ending December 31, 2008, \$1.4 million for the year ending December 31, 2009 and \$1.3 million for the years ending December 31, 2010 and 2011.

**6. Inventories**

Inventories consist of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Finished goods	\$ 4,230	\$ 3,721
Work in process	1,552	1,526
Raw materials	6,946	5,496
	\$ 12,728	\$ 10,743

**7. Warranties**

Warranties are estimated and accrued for at the time sales are recorded. A rollforward of product warranties is as follows:

	Beginning Balance	Payments	Additions	Ending Balance
	(in thousands)			
Year ended December 31, 2006	\$ 237	(151)	93	\$ 179
Six months ended June 30, 2007	\$ 179	(119)	157	\$ 217

**8. Comprehensive Income**

As of June 30, 2007, accumulated other comprehensive income consisted of cumulative foreign currency translation adjustments of \$8.6 million and the underfunded status of our pension plans, in accordance with SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, of \$(1.6) million, net of tax. As of June 30, 2006, accumulated other comprehensive income consisted of cumulative foreign currency translation adjustments of \$5.9 million and a minimum pension liability adjustment of \$(0.6) million, net of tax.

The components of total comprehensive income were as follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in thousands)			
Net (loss) income	\$ (1,766)	\$ (324)	\$ (1,270)	\$ 216
Other comprehensive income	640	1,789	813	2,068
Comprehensive income (loss)	\$ (1,126)	\$ 1,465	\$ (457)	\$ 2,284

Other comprehensive income for the three and six months ended June 30, 2007 and 2006 consisted of foreign currency translation adjustments.

**Table of Contents****HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (Continued)****9. Employee Benefit Plans**

Certain of the Company's United Kingdom subsidiaries, Harvard Apparatus Limited and Biochrom Limited, maintain contributory, defined benefit or defined contribution pension plans for substantially all of their employees. The components of the Company's defined benefit pension expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
(in thousands)				
Components of net periodic benefit cost:				
Service cost	\$ 147	\$ 116	\$ 289	\$ 218
Interest cost	211	194	414	366
Expected return on plan assets	(236)	(216)	(462)	(407)
Net amortization loss	35	53	68	100
Net periodic benefit cost	\$ 157	\$ 147	\$ 309	\$ 277

For the three and six months ended June 30, 2007 and 2006, no contribution was made to the defined benefit plans by the Company. The Company expects to contribute approximately \$0.5 million to the defined benefit plans during 2007.

**10. Segment and Related Information**

During the quarter ended June 30, 2005, the Company realigned its lines of business into two business segments, the Apparatus and Instrumentation Business segment and the Capital Equipment Business segment. Corporate costs of \$1.5 million and \$2.8 million for the three and six months ended June 30, 2007, respectively, and \$1.5 million and \$2.8 million for the three and six months ended June 30, 2006, respectively, are all included in general and administrative expenses from continuing operations and are not allocated for purposes of segment reporting. Included in corporate costs are \$0.4 million and \$0.7 million for the three and six months ended June 30, 2007, respectively, and \$0.3 million and \$0.5 million for the three and six months ended June 30, 2006, respectively, of stock compensation expense related to the adoption of SFAS No. 123(R). See Note 3-Employee Stock Benefit and Stock-Based Compensation.

During the quarter ended September 30, 2005, the Company announced plans to divest its Capital Equipment Business segment. The decision to divest this business segment was based on the fact that market conditions for the Capital Equipment Business have been such that this business has not met the Company's expectations and the decision to focus Company resources on the Apparatus and Instrumentation Business segment. As a result, we began reporting the Capital Equipment Business segment as a discontinued operation in the third quarter of 2005. See Note 4-Discontinued Operations.

**11. Revolving Credit Facility**

During 2003, we entered into a \$20.0 million credit facility with Brown Brothers Harriman & Co. (BBH). On December 1, 2006, we amended the terms of the credit facility. This amendment changed the terms of the Company's current \$20 million credit facility, by allowing borrowing of up to \$10.0 million in British Pound Sterling or Eurocurrency and extending the maturity date from January 1, 2007 to December 1, 2009. The amended credit facility bears interest at either (1) the base rate announced by BBH from time to time, (2) the London Interbank Offered Rate (LIBOR) or (3) the Eurocurrency base rate, plus, in the case of LIBOR or the Eurocurrency base rate, a margin of 2.5% or 2.75% depending on the Company's debt service leverage ratio. As of June 30, 2007, we had \$0.2 million in U.S. dollar loans outstanding bearing interest at a rate equal to the bank's base rate, which was equal to the prime rate of 8.25% per annum.

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As of June 30, 2007, we are in compliance with financial covenants contained in the credit facility involving income, debt coverage and cash flow, as well as minimum working capital requirements. Additionally, the credit facility also contains limitations on the Company's ability to incur additional indebtedness and requires creditor approval for acquisitions funded with cash, promissory notes and/or other consideration in excess of \$6 million and for acquisitions funded solely with equity in excess of \$10.0 million. We do not believe that these requirements will be a significant constraint on our operations or on the acquisition portion of our growth strategy. As of June 30, 2007, there was \$0.2 million outstanding under the credit facility, a decrease of approximately \$2.8 million from \$3.0 million as of December 31, 2006. As of June 30, 2007, we were not subject to any borrowing restrictions under the covenants and we had available borrowing capacity under our revolving credit facility of \$19.8 million.



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**HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements (Continued)**

Under the terms of our credit facility, we will be required to obtain consent from our lenders upon the sale of our Capital Equipment Business segment. If we are unable to obtain this consent, the sale of our Capital Equipment Business segment will trigger a default under the credit facility whereby our lenders could accelerate all of our outstanding indebtedness and terminate our credit facility.

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### **Item 1A. Risk Factors**

There have been no material changes in the risk factors described in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2006, except to the extent previously updated or to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward Looking Statements**

*This Quarterly Report on Form 10-Q contains statements that are not statements of historical fact and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The forward-looking statements are principally, but not exclusively, contained in Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about management's confidence or expectations, and our plans, objectives, expectations and intentions that are not historical facts. In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, intends, potential and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Factors that may cause our actual results to differ materially from those described in these forward-looking statements include our inability to complete the divestiture of the Capital Equipment Business segment on attractive terms or on a timely basis, the potential loss of business at the Capital Equipment Business segment relating to our decision to divest this business, unanticipated costs or expenses related to the divestiture of the Capital Equipment Business segment, our failure to successfully integrate acquired businesses or technologies, expand our product offerings, introduce new products or commercialize new technologies, unanticipated costs relating to acquisitions, decreased demand for our products due to changes in our customers' needs, financial position, general economic outlook, or other circumstances, overall economic trends, the timing of our customers' capital equipment purchases and the seasonal nature of purchasing in Europe, economic, political and other risks associated with international revenues and operations, additional costs of complying with recent changes in regulatory rules applicable to public companies, our ability to manage our growth, our ability to retain key personnel, competition from our competitors, technological changes resulting in our products becoming obsolete, our ability to meet the financial covenants contained in our credit facility, our ability to protect our intellectual property and operate without infringing on others' intellectual property, potential costs of any lawsuits to protect or enforce our intellectual property, economic and political conditions generally and those affecting pharmaceutical and biotechnology industries, the impact of any impairment of our goodwill or intangible assets, plus factors described under the heading Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Our results may also be affected by factors of which we are not currently aware. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. We may not update these forward-looking statements, even though our situation may change in the future, unless we have obligations under the federal securities laws to update and disclose material developments related to previously disclosed information.*

### **General**

From 1997 to 2006, the revenues from our continuing operations grew from \$11.5 million to \$76.2 million, an annual compounded growth rate of approximately 23.4%. During the second half of 2005, we successfully refocused our resources on our core apparatus and instrumentation business, which has been the cornerstone to our success over the last decade.

During the three and six months ended June 30, 2007, our revenues increased to \$20.4 million and \$39.5 million, respectively, from \$18.2 million and \$35.6 million for the same periods in 2006. Additionally, our income from continuing operations was \$2.0 million and \$3.8 million for the three and six months ended June 30, 2007, respectively, compared to net income of \$1.8 million and \$3.4 million for the same periods in 2006.

Two significant developments that impacted our results during the three and six months ended 2007 were the weakening of the dollar compared to foreign currencies and our acquisition of our Anthos product lines in the second quarter of 2006. Foreign exchange rate fluctuations resulted in increased revenues on sales denominated in foreign currencies and increased expenses associated with our foreign operations. During the second quarter of 2006, we purchased select assets of the microplate reader and washer product lines from Anthos Labtec Instruments GmbH, a subsidiary of Beckman Coulter, Inc., for approximately \$1.1 million. Sales of our Anthos product lines were \$0.8 million and \$2.1 million for the three and six months ended 2007. Because our Anthos product lines have lower gross margins, increased sales of these products contributed to lower overall gross profit as a percentage of revenues. However, overall operating profit margins at our Asys subsidiary, which includes our

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Anthos product lines, are relatively consistent with our other subsidiaries and have increased significantly as a result of our tuck-under integration strategy.

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We also continued our efforts to divest our Capital Equipment Business segment. During the three and six months ended June 30, 2007, our loss from discontinued operations, net of tax, was \$3.8 million and \$5.0 million, respectively, compared to \$2.1 million and \$3.2 million for the same periods in 2006. Our loss for the three and six months ended June 30, 2007, included asset impairment charges of \$2.9 million.

Looking further into 2007, we remain encouraged by the continued strengthening of our international sales in the life sciences market and are focused on the growth opportunities in the U.S. markets. We remain committed to our goal of high revenue and profit growth through a combination of organic growth and tuck under acquisitions. In particular, we expect to launch an important new product in the third quarter of 2007, our Nanovue, which is a novel microliter spectrophotometer that will be sold through GE Healthcare.

Generally, management evaluates the financial performance of its operations before the effects of stock compensation expense and before the effects of purchase accounting and amortization of intangible assets related to our acquisitions. Our goal is to develop and sell products that improve life science research and as such, we monitor our operating metrics and when appropriate, effect organizational changes to leverage infrastructure and distribution channels. These changes may be effected as a result of various events, including acquisitions, the worldwide economy, general market conditions and personnel changes.

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### **Financing**

During 2003, we entered into a \$20.0 million credit facility with Brown Brothers Harriman & Co. On December 1, 2006, we amended the terms of the credit facility. The amended credit facility expires on December 1, 2009.

As of June 30, 2007, we were in compliance with the financial covenants contained in the credit facility involving income, debt coverage and cash flow, as well as minimum working capital requirements. Additionally, the credit facility also contains limitations on our ability to incur additional indebtedness and requires creditor approval for acquisitions funded with cash, promissory notes and/or other consideration in excess of \$6 million and for acquisitions funded solely with equity in excess of \$10.0 million. We do not believe that these requirements will be a significant constraint on our operations or on the acquisition portion of our growth strategy. As of June 30, 2007, there was \$0.2 million outstanding under the credit facility, a decrease of approximately \$2.8 million from \$3.0 million as of December 31, 2006. As of June 30, 2007, we were not subject to any borrowing restrictions under the covenants and we had available borrowing capacity under our revolving credit facility of \$19.8 million.

Under the terms of our credit facility, we will be required to obtain consent from our lenders upon the sale of our Capital Equipment Business segment. If we are unable to obtain this consent, the sale of our Capital Equipment Business segment will trigger a default under the credit facility whereby our lenders could accelerate all of our outstanding indebtedness and terminate our credit facility.

Historically, we have funded acquisitions with debt, capital raised by issuing equity and cash flow from operations. In order to continue the acquisition portion of our growth strategy beyond what our current cash balances and cash flow from operations can support we will need to raise more capital, either by incurring additional debt, issuing equity or a combination or through the sale of our Capital Equipment Business segment.

To the extent we receive some or all of the proceeds in cash from the planned divestiture of our Capital Equipment Business segment, we intend to apply any cash proceeds to the repayment of debt, to continue our tuck-under acquisition strategy within our Apparatus and Instrumentation Business segment or to other general corporate purposes.

### **Components of Operating Income from Continuing Operations**

*Revenues.* We generate revenues by selling apparatus, instruments, devices and consumables through our catalog, our direct sales force, our distributors and our website.

For products primarily priced under \$10,000, typically every three to five years, we intend to distribute a new, comprehensive catalog initially in a series of bulk mailings, first to our existing customers, followed by mailings to targeted markets of potential customers. Over the life of the catalog, distribution will also be made periodically to potential and existing customers through direct mail and trade shows and in response to e-mail and telephone inquiries. From time to time, we also intend to distribute catalog supplements that promote selected areas of our catalog or new products to targeted subsets of our customer base. Future distributions of our comprehensive catalog and our catalog supplements will be determined primarily by the incidence of new product introductions, which cannot be predicted. Our end user customers are research scientists at pharmaceutical and biotechnology companies, universities and government laboratories. Revenue from catalog sales in any period is influenced by the amount of time elapsed since the last mailing of the catalog, the number of catalogs mailed and the number of new items included in the catalog. We launched our latest comprehensive catalog in March 2004, with approximately 1,100 pages and approximately 70,000 copies printed. Revenues direct to end users, derived through our catalog and the electronic version of our catalog on our website, represented approximately 32% of our revenues for the six months ended June 30, 2007 and for the year ended December 31, 2006.

Products sold under brand names of distributors including GE Healthcare, are typically priced in the range of \$5,000-\$15,000. They are mainly scientific instruments like spectrophotometers and plate readers that analyze light to detect and quantify a very wide range of molecular and cellular processes or apparatus like gel electrophoresis units. We also use distributors for both our catalog products and our higher priced products, for sales in locations where we do not have subsidiaries or where we have distributors in place for acquired businesses. For the six months ended June 30, 2007 and for the year ended December 31, 2006, approximately 61% and 62%, respectively, of our revenues were derived from sales to distributors.

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For the six months ended June 30, 2007 and for the year ended December 31, 2006, approximately 89% and 90%, respectively, of our revenues were derived from products we manufacture. The remaining 11% and 10%, respectively, of our revenues for the six months ended June 30, 2007 and for the year ended December 31, 2006, were derived from complementary products we distribute in order to provide the researcher with a single source for all equipment needed to conduct a particular experiment. For the six months ended June 30, 2007 and for the year ended December 31, 2006, approximately 55% and 53%, respectively, of our revenues were derived from sales made by our non-U.S. operations. A large portion of our international sales during this period consisted of sales to GE Healthcare (formerly Amersham Biosciences), the distributor for most of our spectrophotometers and electrophoresis products. GE Healthcare distributes these products to customers around the world, including to many customers in the United States, from its distribution center in Upsalla, Sweden. As a result, we believe our international sales would have been a lower percentage of our revenues if we had shipped our products directly to the end-users. Changes in the relative proportion of our revenue sources between catalog sales, direct sales, and distribution sales are primarily the result of a different sales proportion of acquired companies.

*Cost of product revenues.* Cost of product revenues includes material, labor and manufacturing overhead costs, obsolescence charges, packaging costs, warranty costs, shipping costs and royalties. Our cost of product revenues may vary over time based on the mix of products sold. We sell products that we manufacture and products that we purchase from third parties. The products that we purchase from third parties have higher cost of product revenues because the profit is effectively shared with the original manufacturer. We anticipate that our manufactured products will continue to have a lower cost of product revenues as a percentage of revenues as compared with the cost of non-manufactured products for the foreseeable future. Additionally, our cost of product revenues as a percent of product revenues will vary based on mix of direct to end user sales and distributor sales, mix by product line and mix by geography.

*Sales and marketing expenses.* Sales and marketing expense consists primarily of salaries and related expenses for personnel in sales, marketing and customer support functions. We also incur costs for travel, trade shows, demonstration equipment, public relations and marketing materials, consisting primarily of the printing and distribution of our approximately 1,100 page catalog, supplements and various other specialty catalogs, and the maintenance of our websites. We may from time to time expand our marketing efforts by employing additional technical marketing specialists in an effort to increase sales of selected categories of products in our catalog. We may also from time to time expand our direct sales organizations in an effort to increase and/or support sales of our higher priced capital equipment instruments or to concentrate on key accounts or promote certain product lines.

*General and administrative expenses.* General and administrative expense consists primarily of salaries and other related costs for personnel in executive, finance, accounting, information technology and human relations functions. Other costs include professional fees for legal and accounting services, restructuring costs, facility costs, investor relations, insurance and provision for doubtful accounts.

*Research and development expenses.* Research and development expense consists primarily of salaries and related expenses for personnel and capital resources used to develop and enhance our products and to support collaboration agreements. Other research and development expense includes fees for consultants and outside service providers, and material costs for prototype and test units. We expense research and development costs as incurred. We believe that investment in product development is a competitive necessity and plan to continue to make these investments in order to realize the potential of new technologies that we develop, license or acquire.

*Stock compensation expenses.* On January 1, 2006, we adopted SFAS No. 123(R), which requires the Company to recognize compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan ( employee stock purchases ). We adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of our fiscal year 2006. Stock-based compensation expense recognized under SFAS No. 123(R) was \$0.6 million and \$16,000 for the three months ended June 30, 2007 in our continuing operations and discontinued operations, respectively, and \$1.0 million and \$30,000 for the six months ended June 30, 2007 in our continuing operations and discontinued operations, respectively. Stock-based compensation expense recognized under SFAS No. 123(R) was \$0.4 million and \$56,000 for the three months ended June 30, 2006 in our continuing operations and discontinued operations, respectively, and \$0.8 million and \$0.1 million for the six months ended June 30, 2006 in our continuing operations and discontinued operations, respectively. This stock-based compensation expense was related to employee stock options and the employee stock purchase plan and was recorded as a component of cost of product revenues, sales and marketing expenses, general and administrative expenses, and research and development expenses.

**Table of Contents****Selected Results of Operations from Continuing Operations***Three months ended June 30, 2007 compared to three months ended June 30, 2006:*

	Three Months Ended			
	2007	June 30, 2006	Dollar Change	% Change
	(dollars in thousands, unaudited)			
Revenues	\$ 20,410	\$ 18,187	\$ 2,223	12.2%
Cost of product revenues	10,426	8,945	1,481	16.6%
Gross margin percentage	48.9%	50.8%		
Sales and marketing expenses	2,553	2,356	197	8.4%
General and administrative expenses	3,544	3,405	139	4.1%
Research and development expenses	888	773	115	14.9%

**Revenues.**

Revenues increased \$2.2 million, or 12.2%, to \$20.4 million for the three months ended June 30, 2007 compared to \$18.2 million for the same period in 2006. Excluding the impact of foreign exchange, revenues increased \$1.6 million, or 8.6%. The revenue increase was primarily derived from our cell biology equipment sold by our Harvard Apparatus businesses, the impact of new spectrophotometers sold by our Biochrom subsidiary, increased sales of plate readers at our Asys subsidiary and the impact of our recently acquired Anthos product lines. In addition, revenue growth was strong internationally, particularly in Europe. The foreign exchange impact on sales denominated in foreign currencies was \$0.6 million, or 3.6%, during the second quarter of 2007.

**Cost of product revenues.**

Cost of product revenues increased \$1.5 million, or 16.6%, to \$10.4 million for the three months ended June 30, 2007 from \$8.9 million for the three months ended June 30, 2006. The increase in cost of product revenues was mainly due to increased sales volumes in the second quarter of 2007 compared to the same period in 2006. Gross profit as a percentage of revenues decreased to 48.9% for the three months ended June 30, 2007 compared with 50.8% for the same period in 2006. The decrease in gross profit as a percentage of revenues was primarily due to a higher proportion of sales from our lower margin products, primarily from our Anthos product lines.

**Sales and marketing expense.**

Sales and marketing expenses increased \$0.2 million, or 8.4%, to \$2.6 million for the three months ended June 30, 2007 compared to \$2.4 million for the three months ended June 30, 2006. This increase is primarily due to an increase in foreign exchange rates of \$0.1 million, commissions due to higher sales volumes and other employee related costs of \$0.1 million.

**General and administrative expense.**

General and administrative expenses were \$3.5 million, an increase of \$0.1 million, or 4.1%, for the three months ended June 30, 2007 compared to \$3.4 million for the three months ended June 30, 2006. The increase in general and administrative expenses is primarily due to an increase in foreign exchange rates of \$0.1 million and stock-based compensation of \$0.2 million offset by a decrease in professional fees of approximately \$0.2 million.

**Research and development expense.**

Research and development expenses were \$0.9 million, an increase of \$0.1 million, or 14.9%, for the three months ended June 30, 2007 compared to \$0.8 million for the three months ended June 30, 2006. The increase in research and development expenses is primarily due to an increase in foreign exchange rates and costs associated with recent product introductions.

**Amortization of intangible assets.**

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Amortization of intangibles was \$0.4 million for each of the three months ended June 30, 2007 and 2006, respectively.



**Table of Contents****Other income (expense), net.**

Other expense, net, was \$7,000 for the three months ended June 30, 2007 compared to other expense, net of \$39,000 for the three months ended June 30, 2006. Net interest expense was \$23,000 for the three months ended June 30, 2007 and \$0.1 million for the three months ended June 30, 2006 primarily due to a decrease of approximately \$6.3 million outstanding under our credit facility. Other income (expense), net also included foreign exchange gains of \$21,000 and \$0.1 million for the three months ended June 30, 2007 and 2006, respectively. These exchange gains were primarily the result of currency fluctuations on intercompany transactions between our subsidiaries.

**Income taxes.**

Income tax expense from continuing operations was approximately \$0.5 million for the three months ended June 30, 2007 and 2006. The effective income tax rate for continuing operations was 20.9% for the three months ended June 30, 2007, compared with 20.7% for the same period in 2006.

**Discontinued Operations**

During the quarter ended September 30, 2005, the Company announced plans to divest its Capital Equipment Business segment. The decision to divest this business segment was based on the fact that market conditions for the Capital Equipment Business have been such that this business has not met the Company's expectations and the decision to focus Company resources on the Apparatus and Instrumentation Business segment. As a result, we began reporting the Capital Equipment Business segment as a discontinued operation in the third quarter of 2005. The loss from discontinued operations, net of tax was approximately \$3.8 million for the three months ended June 30, 2007 compared to a loss of \$2.1 million for the same period in 2006. During the quarter ended June 30, 2007, the Company utilized the terms of a proposed agreement to purchase substantially all of the assets that comprise the Capital Equipment Business segment to re-evaluate the fair value less costs to sell these assets. The proposed agreement included contingent consideration from an earn-out agreement for which no value has been ascribed since realization is not assured. Based on management's evaluation, additional asset impairment charges of approximately \$2.9 million were recorded during the second quarter ended June 30, 2007.

The above proposed agreement is not a definitive agreement for the sale of the Capital Equipment Business segment. There can be no assurances that the Company will sell this portion of its Capital Equipment Business segment pursuant to the terms of this proposed agreement or at all.

**Six months ended June 30, 2007 compared to six months ended June 30, 2006:**

	Six Months Ended			
	2007	June 30, 2006	Dollar Change	% Change
	(dollars in thousands, unaudited)			
Revenues	\$ 39,525	\$ 35,557	\$ 3,968	11.2%
Cost of product revenues	20,120	17,435	2,685	15.4%
Gross margin percentage	49.1%	51.0%		
Sales and marketing expenses	5,023	4,637	386	8.3%
General and administrative expenses	6,947	6,600	347	5.3%
Research and development expenses	1,732	1,524	208	13.6%

**Revenues.**

Revenues increased \$4.0 million, or 11.2%, to \$39.5 million for the six months ended June 30, 2007 compared to \$35.6 million for the same period in 2006. Excluding the impact of foreign exchange, revenues increased \$2.4 million, or 6.9%. The revenue increase was primarily derived from our core physiology and cell biology equipment sold by our Harvard Apparatus businesses, the impact of new spectrophotometers sold by our Biochrom subsidiary, increased sales of plate readers at our Asys subsidiary and the impact of our recently acquired Anthos product lines. The foreign exchange impact on sales denominated in foreign currencies was \$1.4 million, or 4.3%, during the six months ended June 30, 2007.

**Cost of product revenues.**

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Cost of product revenues increased \$2.7 million, or 15.4%, to \$20.1 million for the six months ended June 30, 2007 from \$17.4 million for the six months ended June 30, 2006. The increase in cost of product revenues was mainly due to increased sales volumes in the first six months of 2007 compared to the same period in 2006. Gross profit as a percentage of revenues decreased to 49.1% for the six months ended June 30, 2007 compared with 51.0% for the same period in 2006. The decrease in gross profit as a percentage of revenues was primarily due to a higher proportion of sales from our lower margin products, primarily from our Anthos product lines.

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### ***Sales and marketing expense.***

Sales and marketing expenses increased \$0.4 million, or 8.3%, to \$5.0 million for the six months ended June 30, 2007 compared to \$4.6 million for the six months ended June 30, 2006. This increase is primarily due to an increase in foreign exchange rates of \$0.2 million, commissions due to higher sales volumes and other employee related costs of \$0.2 million.

### ***General and administrative expense.***

General and administrative expenses were \$6.9 million, an increase of \$0.3 million, or 5.3%, for the six months ended June 30, 2007 compared to \$6.6 million for the six months ended June 30, 2006. The increase in general and administrative expenses is primarily due to an increase in foreign exchange rates of \$0.2 million stock-based compensation of \$0.2 million and bonus of \$0.1 million offset by a decrease in professional fees of approximately \$0.2 million.

### ***Research and development expense.***

Research and development expenses were \$1.7 million, an increase of \$0.2 million, or 13.6%, for the six months ended June 30, 2007 compared to \$1.5 million for the six months ended June 30, 2006. The increase in research and development expenses is primarily due to an increase in foreign exchange rates of \$0.1 million and costs associated with recent product introductions of \$0.1 million.

### ***Amortization of intangible assets.***

Amortization of intangibles was \$0.9 million and \$0.8 million for the six months ended June 30, 2007 and 2006, respectively.

### ***Other income (expense), net.***

Other income, net, was \$6,000 for the six months ended June 30, 2007 compared to other expense, net of \$0.2 million for the six months ended June 30, 2006. Net interest expense was \$28,000 for the six months ended June 30, 2007 compared to net interest expense of \$0.2 million for the same period in 2006. The decrease in net interest expense was primarily the result of lower average long-term debt balances in the first six months of 2007 compared to the first six months of 2006. Other expense, net also included foreign exchange gains of \$0.05 million and \$0.1 million for the six months ended June 30, 2007 and 2006, respectively. These exchange gains were primarily the result of currency fluctuations on intercompany transactions between our subsidiaries.

### ***Income taxes.***

Income tax expense from continuing operations was \$1.1 million for the six months ended June 30, 2007 compared to \$1.0 million for the six months ended June 30, 2006. The effective income tax rate for continuing operations was 22.1% for the six months ended June 30, 2007, compared with 22.5% for the same period in 2006.

## **Discontinued Operations**

During the quarter ended September 30, 2005, the Company announced plans to divest its Capital Equipment Business segment. The decision to divest this business segment was based on the fact that market conditions for the Capital Equipment Business have been such that this business has not met the Company's expectations and the decision to focus Company resources on the Apparatus and Instrumentation Business segment. As a result, we began reporting the Capital Equipment Business segment as a discontinued operation in the third quarter of 2005. The loss from discontinued operations, net of tax was approximately \$5.0 million for the six months ended June 30, 2007 compared to a loss of \$3.2 million for the same period in 2006. During the quarter ended June 30, 2007, the Company utilized the terms of a proposed agreement to purchase substantially all of the assets that comprise the Capital Equipment Business segment to re-evaluate the fair value less costs to sell these assets. The proposed agreement included contingent consideration from an earn-out agreement for which no value has been ascribed since realization is not assured. Based on management's evaluation, additional asset impairment charges of approximately \$2.9 million were recorded during the second quarter ended June 30, 2007.

The above proposed agreement is not a definitive agreement for the sale of the Capital Equipment Business segment. There can be no assurances that the Company will sell this portion of its Capital Equipment Business segment pursuant to the terms of this proposed agreement or at all.



**Table of Contents****Liquidity and Capital Resources**

Historically, we have financed our business through cash provided by operating activities, the issuance of common stock and preferred stock, and bank borrowings. Our liquidity requirements have arisen primarily from investing activities, including funding of acquisitions and capital expenditures.

In our consolidated statements of cash flows, we have elected to combine the cash flows from both continuing and discontinued operations within each category, as allowed by SFAS No. 95, *Statement of Cash Flows*. Unless specifically noted otherwise, our discussion of our cash flows below refers to combined cash flows from both continuing and discontinued operations.

We ended the second quarter of 2007 with cash and cash equivalents of \$10.0 million, of which \$9.0 million was held in continuing operations and \$1.0 million was held in discontinued operations, compared to cash and cash equivalents of \$9.8 million at December 31, 2006. As of June 30, 2007, we had \$0.2 million outstanding under our revolving credit facility, a decrease of \$2.8 million due to repayments during 2007, compared to \$3.0 million at December 31, 2006.

**Overview of Cash Flows**

**(Cash flow information includes cash flows for both continuing and discontinued operations)**

(in thousands, unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operations:		
Net income (loss)	\$ (1,270)	\$ 216
Changes in assets and liabilities	(656)	1,119
Other adjustments to operating cash flows	5,547	2,524
<b>Net cash provided by operating activities</b>	<b>3,621</b>	<b>3,859</b>
Investing activities:		
Acquisition		(1,118)
Other investing activities	(842)	(689)
<b>Net cash used in investing activities</b>	<b>(842)</b>	<b>(1,807)</b>
Financing activities:		
Other financing activities	(2,619)	(1,894)
<b>Net cash used in financing activities</b>	<b>(2,619)</b>	<b>(1,894)</b>
Effect of exchange rate changes on cash	48	(80)
<b>Increase in cash and cash equivalents</b>	<b>\$ 208</b>	<b>\$ 78</b>

Our operating activities generated cash of \$3.6 million for the six months ended June 30, 2007 compared to \$3.9 million for the six months ended June 30, 2006. The decrease in cash flows from operations from 2006 to 2007 was primarily the result of the timing of cash payments on accounts payable and taxes payable.

Our investing activities used cash of \$0.8 million in the six months ended June 30, 2007 compared to \$1.8 million for the same period in 2006. During the second quarter of 2006, the Company purchased select assets of the microplate reader and washer product lines from Anthos Labtec Instruments GmbH, a subsidiary of Beckman Coulter, Inc. for approximately \$1.1 million. The caption Other investing activities primarily includes purchases of property, plant, and equipment. We spent \$0.8 million in the six months ended June 30, 2007 on capital expenditures compared to \$0.7 million for the six months ended June 30, 2006. During the next twelve months, we expect to spend approximately \$2.0 million on capital expenditures.

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Our financing activities have historically consisted of borrowings and repayments under a revolving credit facility with Brown Brothers Harriman & Co., long-term debt and the issuance of preferred stock and common stock, including the common stock issued in our initial public offering. We ended 2006 and the six months ended June 30, 2007 with \$3.0 million and \$0.2 million, respectively, drawn against our \$20 million revolving credit facility.

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During 2003, we entered into a \$20.0 million credit facility with Brown Brothers Harriman & Co. On December 1, 2006, we amended the terms of the credit facility. This amendment changed the terms of our current \$20 million credit facility, by allowing borrowing of up to \$10.0 million in British Pound Sterling or Eurocurrency and extending the maturity date from January 1, 2007 to December 1, 2009. The amended credit facility bears interest at either (1) the base rate announced by BBH from time to time, (2) the London Interbank Offered Rate ( LIBOR ) or (3) the Eurocurrency base rate, plus, in the case of LIBOR or the Eurocurrency base rate, a margin of 2.5% or 2.75% depending on our debt service leverage ratio. As of June 30, 2007, we had \$0.2 million in U.S. dollar loans outstanding bearing interest at a rate equal to the bank's base rate, which was equal to the prime rate of 8.25% per annum.

As of June 30, 2007, we were in compliance with the financial covenants contained in the credit facility involving income, debt coverage and cash flow, as well as minimum working capital requirements. Additionally, the credit facility also contains limitations on our ability to incur additional indebtedness and requires creditor approval for acquisitions funded with cash, promissory notes and/or other consideration in excess of \$6 million and for acquisitions funded solely with equity in excess of \$10.0 million. We do not believe that these requirements will be a significant constraint on our operations or on the acquisition portion of our growth strategy. As of June 30, 2007, there was \$0.2 million outstanding under the credit facility, a decrease of approximately \$2.8 million from \$3.0 million as of December 31, 2006. As of June 30, 2007, we were not subject to any borrowing restrictions under the covenants and we had available borrowing capacity under our revolving credit facility of \$19.8 million.

Under the terms of our credit facility, we will be required to obtain consent from our lenders upon the sale of our Capital Equipment Business segment. If we are unable to obtain this consent, the sale of our Capital Equipment Business segment will trigger a default under the credit facility whereby our lenders could accelerate all of our outstanding indebtedness and terminate our credit facility.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary as a result of a number of factors. Based on our current operations and current operating plans, we expect that our available cash, cash generated from current operations and debt capacity will be sufficient to finance current operations and capital expenditures for 12 months and beyond. However, we may use substantial amounts of capital to accelerate product development or expand our sales and marketing activities. We may need to raise additional capital in order to make significant acquisitions. Additional capital raising activities will dilute the ownership interests of existing stockholders to the extent we raise capital by issuing equity securities and we cannot assure you that we will be successful in raising additional capital on favorable terms or at all. In addition, we believe that the absence of cash inflows from our discontinued businesses will not have an impact on our ability to support our current operations or operating plans.

## **Impact of Foreign Currencies**

We sell our products in many countries and a substantial portion of our sales, costs and expenses are denominated in foreign currencies, especially the United Kingdom pound sterling and the Euro. During the six months ended June 30, 2007, the U.S. dollar weakened against these currencies relative to the same six month period in 2006. This resulted in increased consolidated revenue and earnings growth.

Our exchange gains and losses were primarily the result of currency fluctuations on net payables and receivables among our subsidiaries. Currency fluctuations resulted in approximately \$0.05 million and \$0.1 million of foreign currency gains during the six months ended June 30, 2007 and 2006, respectively.

Historically, we have not hedged our foreign currency position. Currently, we attempt to manage foreign currency risk through the matching of assets and liabilities. However, as our sales expand internationally, we will continue to evaluate our currency risks and we may enter into foreign exchange contracts from time to time to mitigate foreign currency exposure.

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### **Critical Accounting Policies**

We believe that our critical accounting policies are as follows:

revenue recognition;

accounting for income taxes;

inventory;

valuation of identifiable intangible assets and in-process research and development in business combinations;

valuation of long-lived and intangible assets and goodwill; and

stock-based compensation.

*Revenue recognition.* We recognize revenue of products when persuasive evidence of a sales arrangement exists, the price to the buyer is fixed or determinable, delivery has occurred, and collectibility of the sales price is reasonably assured. Sales of some of our products include provisions to provide additional services such as installation and training. We evaluate all sales with multiple deliverables, including our collaboration agreements, to determine if more than one unit of accounting exists, in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. When we determine that there is more than one unit of accounting, and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on their relative fair values. In situations where there is objective and reliable evidence of the fair value(s) of the undelivered item(s) in an arrangement but no such evidence for the delivered item(s), we apply the residual method to allocate fair value. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item(s). Revenue for each unit of accounting is recorded once all applicable revenue recognition criteria have been met. Service agreements on our equipment are typically sold separately from the sale of the equipment. Revenues on these service agreements are recognized ratably over the life of the agreement, typically one year, in accordance FASB Technical Bulletin (FTB) 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*.

We account for shipping and handling fees and costs in accordance with EITF Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*, which requires all amounts charged to customers for shipping and handling to be classified as revenues. Our costs incurred related to shipping and handling are classified as cost of product revenues. Warranties and product returns are estimated and accrued for at the time sales are recorded. We have no obligations to customers after the date products are shipped or installed, if applicable, other than pursuant to warranty obligations and service or maintenance contracts. We provide for the estimated amount of future returns upon shipment of products or installation, if applicable, based on historical experience. Historically, product returns and warranty costs have not been significant, and they have been within our expectations and the provisions established, however, there is no assurance that we will continue to experience the same return rates and warranty repair costs that we have in the past. Any significant increase in product return rates or a significant increase in the cost to repair our products could have a material adverse impact on our operating results for the period or periods in which such returns or increased costs materialize.

We make estimates evaluating our allowance for doubtful accounts. On an ongoing basis, we monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. Historically, such credit losses have not been significant, and they have been within our expectations and the provisions established, however, there is no assurance that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of our customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results.



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*Accounting for income taxes.* We determine our annual income tax provision in each of the jurisdictions in which we operate. This involves determining our current and deferred income tax expense as well as accounting for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The future tax consequences attributable to these differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We assess the recoverability of the deferred tax assets by considering whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. To the extent we believe that recovery does not meet this more likely than not standard as required in SFAS No. 109, *Accounting for Income Taxes*, we must establish a valuation allowance. If a valuation allowance is established or increased in a period, generally we allocate the related income tax expense to income from continuing operations in the consolidated statement of operations.

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Management's judgment and estimates are required in determining our income tax provision, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. We have established a valuation allowance attributable to certain deferred tax assets as of June 30, 2007 that do not meet the more likely than not standard of realization based on our ability to generate sufficient future taxable income in the carryback and carryforward periods based on the criteria set forth in SFAS No. 109. We review the recoverability of deferred tax assets during each reporting period by reviewing estimates of future taxable income, future reversals of existing taxable temporary differences, and tax planning strategies that would, if necessary, be implemented to realize the benefit of a deferred tax asset before expiration.

We assess tax positions taken on tax returns, including recognition of potential interest and penalties, in accordance with the recognition thresholds and measurement attributes outlined in FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FAS 109*.

*Inventory.* We value our inventory at the lower of the actual cost to purchase (first-in, first-out method) and/or manufacture the inventory or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision to write down excess and obsolete inventory to its estimated net realizable value if less than cost, based primarily on its estimated forecast of product demand. Since forecasted product demand quite often is a function of previous and current demand, a significant decrease in demand could result in an increase in the charges for excess inventory quantities on hand. In addition, our industry is subject to technological change and new product development, and technological advances could result in an increase in the amount of obsolete inventory quantities on hand. Therefore, any significant unanticipated changes in demand or technological developments could have a significant adverse impact on the value of our inventory and our reported operating results.

*Valuation of identifiable intangible assets acquired in business combinations.* Identifiable intangible assets consist primarily of trademarks and acquired technology. Such intangible assets arise from the allocation of the purchase price of businesses acquired to identifiable intangible assets based on their respective fair market values. Amounts assigned to such identifiable intangible assets are primarily based on independent appraisals using established valuation techniques and management estimates. The value assigned to trademarks was determined by estimating the royalty income that would be negotiated at an arm's-length transaction if the asset were licensed from a third party. A discount factor, ranging from 20% to 40%, which represents both the business and financial risks of such investments, was used to determine the present value of the future streams of income attributable to trademarks. The specific approach used to value trademarks was the Relief from Royalty (RFR) method. The RFR method assumes that an intangible asset is valuable because the owner of the asset avoids the cost of licensing that asset. The royalty savings are then calculated by multiplying a royalty rate times a determined royalty base, i.e., the applicable level of future revenues. In determining an appropriate royalty rate, a sample of guideline, arm's length royalty and licensing agreements are analyzed. In determining the royalty base, forecasts are used based on management's judgments of expected conditions and expected courses of actions. The value assigned to acquired technology was determined by using a discounted cash flow model, which measures what a buyer would be willing to pay currently for the future cash stream potential of existing technology. The specific method used to value the technologies involved estimating future cash flows to be derived as a direct result of those technologies, and discounting those future streams to their present value. The discount factors used, ranging from 20% to 40%, reflect the business and financial risks of an investment in technologies. Forecasts of future cash flows are based on management's judgment of expected conditions and expected courses of action.

*Valuation of in-process research and development acquired in business combinations.* Purchase price allocation to in-process research and development represents the estimated fair value of research and development projects that are reasonably believed to have no alternative future use. The value assigned to in-process research and development was determined by independent appraisals by estimating the cost to develop the purchased in-process research and development into commercially feasible products, estimating the percentage of completion at the acquisition date, estimating the resulting net risk-adjusted cash flows from the projects and discounting the net cash flows to their present value. The discount rates used in determining the in-process research and development expenditures reflects a higher risk of investment because of the higher level of uncertainty due in part to the nature of our business and the industry to constantly develop new technology for future product releases and ranged from 25% to 43.5%. The forecasts used by us in valuing in-process research and development were based on assumptions we believed at the time to be reasonable, but which are inherently uncertain and unpredictable. Given the uncertainties of the development process, no assurance can be given that deviations from our estimates will not occur and no assurance can be given that the in-process research and development projects identified will ever reach either technological or commercial success.

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*Valuation of long-lived and intangible assets and goodwill.* In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we assess the value of identifiable intangibles with finite lives and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of our use of the acquired assets or the strategy for our overall business; significant negative industry or economic trends; significant changes in who our competitors are and what they do; significant changes in our relationship with GE Healthcare; significant decline in our stock price for a sustained period; and our market capitalization relative to net book value.

If we were to determine that the value of long-lived assets and identifiable intangible assets with finite lives was not recoverable based on the existence of one or more of the aforementioned factors, then the recoverability of those assets to be held and used would be measured by a comparison of the carrying amount of those assets to undiscounted future net cash flows before tax effects expected to be generated by those assets. If such assets are considered to be impaired, the impairment to be recognized would be measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

A long-lived asset classified as held for sale is initially measured at the lower of carrying amount or fair value less costs to sell. In the period the held for sale criteria are met, we recognize an impairment charge for any initial adjustment of the long-lived assets. During each reporting period after the initial measurement, gains or losses resulting from fluctuations in the fair value less costs to sell are recognized. Gains and losses not previously recognized resulting from the sale of a long-lived asset are recognized on the date of sale. Assets to be disposed of are separately presented in the consolidated balance sheet and long-lived assets are no longer depreciated or amortized. The assets and liabilities of a disposal group, which are classified as held for sale, are presented separately in the appropriate asset and liability sections of the balance sheet. Operating results for all periods presented are presented as discontinued operations, net of tax. In accordance with EITF No. 87-24, *Allocation of Interest to Discontinued Operations*, we have elected not to allocate interest of our consolidated debt to discontinued operations.

In June 2001, SFAS No. 142, *Goodwill and Other Intangible Assets* was issued. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Among other things, SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather tested annually for impairment or more frequently if events or circumstances indicate that there may be impairment. The goodwill impairment test consists of a comparison of the fair value of our reporting units with their carrying amount. If the carrying amount exceeds its fair value, we are required to perform the second step of the impairment test, as this is an indication that goodwill may be impaired. The impairment loss is measured by comparing the implied fair value of the reporting unit's goodwill with its carrying amount. If the carrying amount exceeds the implied fair value, an impairment loss shall be recognized in an amount equal to the excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited. For unamortizable intangible assets if the carrying amount exceeds the fair value of the asset, we would write-down the unamortizable intangible asset to fair value.

During the second quarter of 2005, the asset groups that comprise our Capital Equipment Business segment experienced a significant decrease in revenues and operating profit margins. We believed the decrease in revenues was caused by a general market decrease in demand for capital equipment, excess capacity of certain genomics equipment in the market place, and new applications for certain products had not developed as previously anticipated. These factors led us to revise our expectations of future revenues and operating profit margins for the Capital Equipment Business segment. As a result, with the assistance of third party independent appraisers, we re-evaluated the long-lived assets associated with these asset groups in accordance with SFAS No. 144 and determined that certain intangible assets within these asset groups were impaired as of June 30, 2005. We used an income approach to determine the fair values of the long-lived assets tested for impairment and recorded abandonment and impairment charges within the Capital Equipment Business segment totaling approximately \$8.1 million for long-lived assets during the second quarter of 2005. These abandonment and impairment charges have been classified within discontinued operations for the year ended December 31, 2005. Also, as a result of the factors described above, in accordance with SFAS No. 142, the Company, with the assistance of third-party independent appraisers, re-evaluated the goodwill associated with the Genomic Solutions and Union Biometrica reporting units for impairment as of June 30, 2005. As a result of this goodwill impairment testing, we recorded impairment charges within the Capital Equipment Business segment of approximately \$9.3 million for goodwill during the second quarter of 2005. We used a combination of an income approach and a market approach to determine the fair value of our Genomic Solutions and Union Biometrica reporting units. These impairment charges have been classified within discontinued operations for the year ended December 31, 2005.

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During the fourth quarter of 2005, certain product lines in the Capital Equipment Business segment did not meet our revenue forecasts and expectations. We believe that the further decline in revenues was due to the relative high price and nature of the products sold by Capital Equipment Business segment which customers, particularly distributors, may not be promoting and purchasing due to the uncertain future of the business. This led to a further reduction in our expectation of future revenues in the Capital Equipment Business segment. As a result, we re-evaluated the goodwill included in this segment in accordance with SFAS No. 142, as well as the fair value of the disposal group in accordance with SFAS No. 144. As a result, an additional goodwill impairment charge of approximately \$7.9 million and a write-down of long-lived assets of approximately \$3.4 million were recorded during the fourth quarter of 2005. We used a combination of income and market approaches to determine the fair value of the disposal group.

During the year ended December 31, 2006, we utilized a market approach and re-evaluated the fair value less costs to sell of the assets that comprise the Capital Equipment Business segment. Based on this evaluation, we recorded additional asset impairment charges of approximately \$3.9 million.

During the quarter ended June 30, 2007, the Company utilized the terms of a proposed agreement to purchase substantially all of the assets that comprise the Capital Equipment Business segment to re-evaluate the fair value less costs to sell these assets. The proposed agreement included contingent consideration from an earn-out agreement for which no value has been ascribed since realization is not assured. Based on management's evaluation, additional asset impairment charges of approximately \$2.9 million were recorded during the second quarter ended June 30, 2007.

The above proposed agreement is not a definitive agreement for the sale of the Capital Equipment Business segment. There can be no assurances that the Company will sell this portion of its Capital Equipment Business segment pursuant to the terms of this proposed agreement or at all.

*Stock-based compensation.* The Company accounts for share-based payment awards in accordance with the provisions of SFAS No. 123(R), which was adopted as of January 1, 2006 using the modified prospective transition method. Stock-based compensation expense recognized under SFAS No. 123(R) for the three months ended June 30, 2007 and 2006 was \$0.6 million and \$0.5 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan. Stock-based compensation expense recognized under SFAS No. 123(R) for the six months ended June 30, 2007 and 2006 was \$1.0 million and \$0.9 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan.

We adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. In accordance with the modified prospective transition method, our consolidated financial statements for periods prior to January 1, 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statement of operations. Prior to the adoption of SFAS No. 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB Opinion No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no stock-based compensation expense was recognized in our consolidated statement of operations when the exercise price of our stock options granted to employees and directors equaled or exceeded the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized includes compensation expense for stock-based payment awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, and compensation expense for the stock-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Stock-based compensation expense has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Upon adoption of SFAS No. 123(R), we elected to retain its method of valuation for stock-based payment awards granted beginning in 2006 using the Black-Scholes option-pricing model ( Black-Scholes model ) which was also previously used for our pro forma information required under SFAS No. 123. Our determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors.

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For awards granted prior to January 1, 2006, we use the accelerated expense recognition method in FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. We record expense on a straight-line basis over the requisite service period for all awards granted since the adoption of SFAS No. 123(R) on January 1, 2006.

**Table of Contents****Recent Accounting Pronouncements**

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FAS 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FASB Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a material impact on our consolidated results of operations or financial position.

In February, 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits reporting entities to choose to measure eligible financial assets or liabilities, which include marketable securities available-for-sale and equity method investments, at fair value at specified election dates, or according to a preexisting policy for specific types of eligible items. Unrealized gains and losses for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. We are in the process of evaluating the impact the adoption of SFAS No. 159 will have on our consolidated results of operations and financial position.

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

We manufacture and test the majority of products in the United States, the United Kingdom, Germany and Austria. We sell our products globally through our direct catalog sales, direct sales force and indirect distributor channels. As a result, our financial results are affected by factors such as changes in foreign currency exchange rates and weak economic conditions in foreign markets.

We collect amounts representing a substantial portion of our revenues and pay amounts representing a substantial portion of our operating expenses in foreign currencies. As a result, changes in currency exchange rates from time to time may affect our operating results. Historically, we have not hedged our foreign currency position. Currently, we attempt to manage foreign currency risk through the matching of assets and liabilities. However, as our sales expand internationally, we plan to evaluate currency risks and we may enter into foreign exchange contracts from time to time to mitigate foreign currency exposure.

We are exposed to market risk from changes in interest rates primarily through our financing activities. At June 30, 2007, we had \$0.2 million outstanding under our revolving credit facility, which bears interest at a variable rate equal to the prime rate. At June 30, 2007, the interest rate on this debt was 8.25%. Assuming no other changes, which would affect the margin of the interest rate under our revolving credit facility, the effect of interest rate fluctuations on outstanding borrowings under our revolving credit facility as of June 30, 2007 over the next twelve months is quantified and summarized as follows:

<b>If compared to the rate as of June 30, 2007</b>	<b>Interest Expense</b>
	<b>Increase (in thousands)</b>
Interest rates increase by 1.0%	\$ 2
Interest rates increase by 2.0%	\$ 4

**Table of Contents****Item 4. Controls and Procedures.**

As required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, we have evaluated, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and our management necessarily was required to apply its judgment in evaluating and implementing our disclosure controls and procedures. Based upon the evaluation described above, our Chief Executive Officer and Chief Financial Officer have concluded that they believe that our disclosure controls and procedures were effective, as of the end of the period covered by this report, in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

We continue to review our internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business. These efforts have led to various changes in our internal controls over financial reporting. There were no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 4. Submission of Matters to a Vote of Security Holders**

On May 17, 2007, the Company held its Annual Meeting of Stockholders. At the meeting, the following matter was voted on by our stockholders, either in person or by proxy, and approved by the following votes:

	Shares Voted For	Votes Withheld
Election of two Class I Directors until the 2010 Annual Meeting of Stockholders and until their successors are duly elected and qualified or until their earlier resignation.		
Robert Dishman	23,515,846	1,341,205
Neal J. Harte	23,786,507	1,070,544

Following the Annual Meeting of Stockholders, the composition of the Board of Directors is as follows:

Class I Directors (to serve until 2010 Annual Meeting)

Robert Dishman

Neil J. Harte

Class II Directors (to serve until 2008 Annual Meeting)

David Green

John F. Kennedy

Class III Directors (to serve until 2009 Annual Meeting)

Chane Graziano

Earl R. Lewis

George Uveges

**Item 5. Other Information.**

On August 3, 2007, the Compensation Committee of the Board of Directors of the Company adopted a revised version of the Harvard Bioscience, Inc. Harvard Apparatus 2007 Bonus Plan from that previously adopted on May 1, 2007. The Harvard Apparatus 2007 Bonus Plan provides for cash bonuses to be paid to certain employees of the Company's Harvard Apparatus business unit (Harvard Apparatus), including Mark A. Norige, the President of Harvard Apparatus, if Harvard Apparatus achieves adjusted operating income for the year ended December 31, 2007 in excess of a specified target. If the target is surpassed, then the Company will create an aggregate bonus pool equal to forty-one percent of Harvard Apparatus's 2007 adjusted operating income in excess of the target. The participants in the plan will then be entitled to participate in the bonus pool based on their individual participation percentage, which is calculated, for each participant, by dividing such participant's maximum bonus under the plan by the aggregate of the maximum bonuses of all of the participants under the plan. The maximum bonus for

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each participant is determined by the Company. Mr. Norige's maximum bonus under the plan is \$60,000; provided that his maximum bonus under the plan may be increased to up to \$100,000 at the Company's discretion based on his performance during 2007. As the plan is funded with an aggregate bonus pool, Mr. Norige's ultimate participation percentage will depend on the awards made to other participants under the plan. The foregoing summary is qualified in its entirety by reference to the copy of the Harvard Apparatus 2007 Bonus Plan, which is attached hereto as Exhibit 10.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.



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**Item 6. Exhibits**

**Exhibit**

**Index**

10.1	Harvard Bioscience, Inc. 2007 Corporate Bonus Plan., incorporated by reference to Form 8-K dated May 1, 2007 and filed on May 7, 2007.
10.2+	Harvard Bioscience, Inc. Harvard Apparatus 2007 Bonus Plan.
31.1+	Certification of Chief Financial Officer of Harvard Bioscience, Inc., pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Chief Executive Officer of Harvard Bioscience, Inc., pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Financial Officer of Harvard Bioscience, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Executive Officer of Harvard Bioscience, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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+ Filed herewith.

\* This certification shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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**SIGNATURES**

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by undersigned thereunto duly authorized.

HARVARD BIOSCIENCE, INC.

By: /s/ CHANE GRAZIANO  
Chane Graziano  
*Chief Executive Officer*

By: /s/ BRYCE CHICOYNE  
Bryce Chicoyne  
*Chief Financial Officer*

Date: August 6, 2007