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	**04-3306140**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
84 October Hill Road, Holliston, MA	**01746**
(Address of Principal Executive Offices)	**(Zip Code)**

(508) 893-8999

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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 x Non-accelerated filer ¨

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

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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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
Assets		
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
Total current assets	50,819	53,285
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
Total assets	$ 90,319	$ 93,228
Liabilities and Stockholders' Equity		
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
Total current liabilities	13,778	14,684
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
Total liabilities	17,664	21,345
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 5,000,000 shares authorized		

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)
Total stockholders' equity	72,655	71,883
Total liabilities and stockholders' equity	$ 90,319	$ 93,228

See accompanying notes to unaudited consolidated financial statements.

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HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share amounts)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 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

Diluted	31,437	31,039	31,416	31,095

See accompanying notes to unaudited consolidated financial statements.

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HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six Months Ended June 30, 2007	2006
Cash flows from operating activities:		
Net income (loss)	$ (1,270)	$ 216
Adjustments to reconcile net income to net cash provided by operating activities:		
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
Changes in operating assets and liabilities, net of effects of acquisitions:		
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
Net cash provided by operating activities	3,621	3,859
Cash flows from investing activities:		
Additions to property, plant and equipment	(838)	(587)
Additions to catalog costs	(4)	(102)
Acquisitions, net of cash acquired		(1,118)
Net cash used in investing activities	(842)	(1,807)
Cash flows from financing activities:		
Repayments of debt	(2,800)	(2,021)
Net proceeds from issuance of common stock	181	127
Net cash used in financing activities	(2,619)	(1,894)
Effect of exchange rate changes on cash	48	(80)
Increase in cash and cash equivalents	208	78
Cash and cash equivalents at the beginning of period	9,751	9,771
Cash and cash equivalents at the end of period	$ 9,959	$ 9,849

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.

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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.

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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.

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HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (Continued)

General Option Information

A summary of stock option transactions follows:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price
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):

	Options Outstanding				Options Exercisable		
Range of Exercise Price	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

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.

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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, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 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	Three and Six Months Ended June 30, 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.

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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.

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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, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 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)	
Assets		
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
Total assets	$ 13,614	$ 17,312
Liabilities		
Total liabilities	$ 5,066	$ 5,066

5. Goodwill and Other Intangible Assets

Intangible assets consist of the following:

	June 30, 2007 Gross	June 30, 2007 Accumulated Amortization	December 31, 2006 Gross	December 31, 2006 Accumulated Amortization	Weighted Average Life (a)
	(in thousands)				
Amortizable intangible assets:					
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

Total amortizable intangible assets	$ 17,670	$ (7,972)	$ 17,459	$ (7,002)
Unamortizable intangible assets:				