HARVARD BIOSCIENCE INC
Form 10-Q
May 07, 2010
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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 March 31, 2010

¨ **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 001-33957

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ YES ¨ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ 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 April 30, 2010, there were 29,595,686 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 March 31, 2010

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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)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 17,043	$ 16,588
Accounts receivable, net of allowance for doubtful accounts of $385 and $403, respectively	14,513	14,383
Inventories	14,020	14,406
Deferred income tax assets - current	556	573
Other receivables and other assets	2,821	2,249
Total current assets	48,953	48,199
Property, plant and equipment, net	3,349	3,545
Deferred income tax assets - non-current	313	318
Amortizable intangible assets, net	20,281	21,104
Goodwill	31,362	32,108
Other indefinite lived intangible assets	1,280	1,301
Other assets	447	656
Total assets	$ 105,985	$ 107,231
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable	$ 6	$ 13
Accounts payable	4,939	4,856
Deferred revenue	573	434
Accrued income taxes payable	786	369
Accrued expenses	3,520	3,680
Other liabilities - current	2,323	2,906
Total current liabilities	12,147	12,258
Long-term debt, less current installments	11,807	13,308
Deferred income tax liabilities - non-current	2,055	2,037
Other liabilities - non-current	4,060	4,371
Total liabilities	30,069	31,974
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; 35,948,108 shares issued and 29,584,436 shares outstanding	360	360
Additional paid-in-capital	185,414	184,856
Accumulated deficit	(100,236)	(102,457)
Accumulated other comprehensive income	(3,954)	(1,834)
Treasury stock at cost, 6,363,672 common shares	(5,668)	(5,668)
Total stockholders equity	75,916	75,257
Total liabilities and stockholders equity	$ 105,985	$ 107,231

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 March 31,	
	2010	**2009**
Revenues	$ 26,300	$ 19,072
Cost of product revenues	13,518	9,662
Gross profit	12,782	9,410
Sales and marketing expenses	3,807	2,372
General and administrative expenses	4,261	3,317
Research and development expenses	1,207	999
Restructuring charges		27
Amortization of intangible assets	531	344
Total operating expenses	9,806	7,059
Operating income	2,976	2,351
Other income (expense):		
Foreign exchange	(26)	76
Interest expense	(155)	(45)
Interest income	42	7
Other, net	(15)	53
Other income (expense), net	(154)	91
Income before income taxes	2,822	2,442
Income taxes	601	603
Net income	$ 2,221	$ 1,839
Income per share:		
Basic earnings per common share	$ 0.07	$ 0.06
Diluted earnings per common share	$ 0.07	$ 0.06
Weighted average common shares:		
Basic	29,584	30,012
Diluted	29,941	30,120

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)

	Three Months Ended March 31,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 2,221	$ 1,839
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	558	312
Depreciation	300	282
Restructuring charges		28
Amortization of catalog costs	67	71
Provision for allowance for doubtful accounts	(2)	(14)
Amortization of intangible assets	531	344
Amortization of deferred financing costs	22	6
Deferred income taxes	34	(1)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(481)	2,699
Increase in inventories	(36)	(302)
Increase in other receivables and other assets	(527)	(304)
Increase (decrease) in trade accounts payable	240	(899)
Increase in accrued income taxes payable	758	194
(Decrease) increase in accrued expenses	(651)	100
Increase (decrease) in deferred revenue	148	(5)
Decrease in other liabilities	(74)	(59)
Net cash provided by operating activities	3,108	4,291
Cash flows used in investing activities:		
Additions to property, plant and equipment	(204)	(299)
Additions to catalog costs	(324)	(11)
Net cash used in investing activities	(528)	(310)
Cash flows used in financing activities:		
Repayments of debt	(1,508)	(376)
Purchases of treasury stock		(1,206)
Net cash used in financing activities	(1,508)	(1,582)
Effect of exchange rate changes on cash	(617)	(214)
Increase in cash and cash equivalents	455	2,185
Cash and cash equivalents at the beginning of period	16,588	13,698
Cash and cash equivalents at the end of period	$ 17,043	$ 15,883

Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 144	$ 35
Net cash paid for income taxes	$ 592	$ 406

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, Harvard Bioscience, the Company, our or we) as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 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 (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The December 31, 2009 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. 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, 2009, which was filed with the SEC on March 11, 2010.

In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present a fair statement of financial position as of March 31, 2010, results of operations for the three months ended March 31, 2010 and 2009 and cash flows for the three months ended March 31, 2010 and 2009, as applicable, have been made. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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, 2009, which was filed with the SEC on March 11, 2010.

2. Recently Issued Accounting Pronouncements

In October 2009, the FASB issued Accounting Standard Update (ASU) No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements.* This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, and measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We believe adoption of this new guidance will not have a material impact on our consolidated results of operations or financial position.

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3. Goodwill and Other Intangible Assets

Intangible assets consist of the following:

	March 31, 2010		December 31, 2009		Weighted Average Life (a)
	(in thousands)				
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	
Amortizable intangible assets:					
Existing technology	$ 10,796	$ (7,407)	$ 11,234	$ (7,525)	5.1 years
Tradename	4,123	(758)	4,123	(689)	13.6 years
Distribution agreement/customer relationships	17,726	(4,203)	17,884	(3,927)	12.9 years
Patents	9	(5)	9	(5)	6.1 years
Total amortizable intangible assets	$ 32,654	$ (12,373)	$ 33,250	$ (12,146)	
Unamortizable intangible assets:					
Goodwill	$ 31,362		$ 32,108		
Other indefinite lived intangible assets	1,280		1,301		
Total goodwill and other indefinite lived intangible assets	$ 32,642		$ 33,409		
Total intangible assets	$ 65,296		$ 66,659		

(a) Weighted average life is as of March 31, 2010.

The change in the carrying amount of goodwill for the three months ended March 31, 2010 is as follows:

	(in thousands)
Balance at December 31, 2009	$ 32,108
Effect of change in foreign currencies	(746)
Balance at March 31, 2010	$ 31,362

Intangible asset amortization expense from continuing operations was $0.5 million and $0.3 million for the three months ended March 31, 2010 and 2009, respectively. Amortization expense of existing amortizable intangible assets is currently estimated to be $2.3 million for the years ending December 31, 2010 and 2011, $2.0 million for the year ending December 31, 2012, $1.9 million for the year ending 2013 and $1.7 million for the year ending December 31, 2014.

4. Inventories

Inventories consist of the following:

	March 31, 2010	December 31, 2009

	(in thousands)	
Finished goods	$ 6,812	$ 7,116
Work in process	484	559
Raw materials	6,724	6,731
Total	$ 14,020	$ 14,406

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5. Restructuring and Other Exit Costs

2009 Restructuring Plan

During the quarter ended March 31, 2009, the management of Harvard Bioscience initiated a plan to relocate the Scie-Plas operation to Hoefer s San Francisco, California facility and exit its general fabrication business as part of its ongoing business improvement initiative. During the quarter ended June 30, 2009, Biochrom s management initiated a plan to improve Biochrom s manufacturing margins. The combined costs of these activities recorded in the year ended December 31, 2009 were $0.7 million.

During the quarter ended March 31, 2010, no charges were recorded relating to the 2009 restructuring plan. During the quarter ended March 31, 2009, we recorded charges relating to this plan of approximately $55,000. These charges were comprised of $9,000 in severance payments, $28,000 in inventory impairment charges related to the discontinuance of certain product lines (included in cost of product revenues) and $18,000 in various other costs.

Activity and liability balances related to these restructuring charges in connection with the 2009 Restructuring Plan were as follows:

	Severance and Related	Inventory	Facility Closure Costs	Other	Total
			(in thousands)		
Restructuring charges	$ 326	$ 163	$ 14	$ 188	$ 691
Cash payments	(323)	(4)	(14)	(88)	(429)
Non-cash charges		(159)		(88)	(247)
Currency translation	(3)			(2)	(5)
Restructuring balance at December 31, 2009	$	$	$	$ 10	$ 10
Cash payments				(2)	(2)
Non-cash charges					
Currency translation					
Restructuring balance at March 31, 2010	$	$	$	$ 8	$ 8

We anticipate the remaining payments related to the 2009 Restructuring Plan will occur during the second quarter of 2010.

6. Acquisition

On September 2, 2009, the Company through its newly formed wholly-owned subsidiary, DAC Acquisition Holding, Inc., acquired substantially all of the assets of Denville Scientific, Inc. (Denville), a Delaware corporation with its principal offices in New Jersey.

Under the terms of the Asset Purchase Agreement, the Company made payments of approximately $20.8 million in cash during 2009, and will make one additional contingent payment. We anticipate the final payment of approximately $1.9 million will be paid in the second quarter of 2010. The Company expects to fund the final installment of the purchase price from its existing cash balances, its credit facility or both.

Denville is a supplier of molecular biology products, with a focus on liquid handling consumables utilized in research laboratories. We believe that the acquisition of Denville Scientific will bring to Harvard Bioscience a well-established business with an excellent organic growth history, an extensive field sales organization throughout the United States and a significant consumables business.

The balance of the contingent consideration of approximately $1.9 million was recorded in other current liabilities in our consolidated balance sheets as of December 31, 2009 and March 31, 2010.

The amounts of Denville s revenue and net income included in the consolidated statement of operations for the three months ended March 31, 2010 are $5.7 million and $0.4 million, respectively.

The following consolidated pro forma information is based on the assumption that the acquisition occurred on January 1, 2009. Accordingly, the historical results have been adjusted to reflect amortization expense and interest costs that would have been recognized on such a pro forma basis. The unaudited pro forma information is presented for comparative purposes only and is not necessarily indicative of the financial position or results of operations which would have been reported had we completed the acquisition during these periods or which might be reported in the future.

	Three Months Ended March 31, 2009 (in thousands)
Pro Forma	
Revenues	$ 24,267
Net income	$ 1,985

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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, 2009	$ 186	(56)	32	$ 162
Three months ended March 31, 2010	$ 162	(1)	8	$ 169

8. Comprehensive Income

As of March 31, 2010, accumulated other comprehensive income consisted of cumulative foreign currency translation adjustments of $(1.2) million and, in accordance with FASB ASC 715-20, *Compensation Retirement Benefits, Defined Benefit Plans,* $(2.7) million to reflect the under-funded status of the Company s pension plans net of tax.

The components of total comprehensive income were as follows:

	Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net income	$ 2,221	$ 1,839
Other comprehensive loss	(2,120)	(982)
Comprehensive income	$ 101	$ 857

Other comprehensive income for the three months ended March 31, 2010 and 2009 consisted of foreign currency translation adjustments.

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 March 31,	
	2010	2009
	(in thousands)	
Components of net periodic benefit cost:		
Service cost	$ 45	$ 33
Interest cost	195	181
Expected return on plan assets	(148)	(132)
Net amortization loss	38	23
Net periodic benefit cost	$ 130	$ 105

For the three months ended March 31, 2010 and 2009, the Company made no contribution to its defined benefit plans. The Company expects to contribute approximately $0.5 million to its defined benefit plans during 2010.

10. Capital Stock

Stock Repurchase Program

On December 6, 2007, the Board of Directors authorized the repurchase by the Company of up to $10 million of its common stock in the open market or through privately negotiated transactions over the next 24 months. On November 3, 2009, the Board of Directors extended this program for an additional year. Under the program, shares may be repurchased from time to time and in such amounts as market conditions warrant, subject to regulatory considerations and any applicable contractual restrictions.

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During the three months ended March 31, 2010, the Company repurchased no shares pursuant to this program. During the three months ended March 31, 2009, the company repurchased in the open market 434,074 shares of common stock at an aggregate cost of $1.2 million, including commissions under the stock repurchase program.

At March 31, 2010, we had $5.0 million remaining under the stock repurchase program authorization.

Repurchased shares have been recorded as treasury stock and will be held until the Company s Board of Directors designates that these shares be retired or used for other purposes.

Stock Option Plans

We account for share-based payment awards in accordance with the provisions of FASB ASC 718, which requires us 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 (ESPP). Stock-based compensation expense recognized under FASB ASC 718 for the three months ended March 31, 2010 and 2009 was $0.6 million and $0.3 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the ESPP.

Valuation and Expense Information Under Share-Based Payment Accounting

Stock-based compensation expense related to employee stock options and the ESPP under FASB ASC 718 for the three months ended March 31, 2010 and 2009, respectively, was allocated as follows:

	Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Cost of sales	$ 16	$ 11
Sales and marketing	11	(4)
General and administrative	528	304
Research and development	3	1
Total stock-based compensation	$ 558	$ 312

We did not capitalize any stock-based compensation. No significant tax benefit on the stock-based compensation was recorded in the three months ended March 31, 2010 and 2009 since the Company has established a valuation allowance against net deferred tax assets.

Stock-based compensation expense recognized in the consolidated statement of operations for the three months ended March 31, 2010 and 2009 is based on awards ultimately expected to vest and has been reduced for annualized estimated forfeitures of 4.83% and 5.96%, respectively. Share-based-payment accounting 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.

Weighted Average Common Shares 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 March 31,	
	2010	2009
Basic	29,584,436	30,011,732

Effect of assumed conversion of employee and director stock options	356,781	108,378
Diluted	29,941,217	30,120,110

Excluded from the shares used in calculating the diluted earnings per common share in the above table are options to purchase approximately 5,781,850 and 5,615,572 shares of common stock for the three months ended March 31, 2010 and 2009, respectively, as the impact of these shares would be anti-dilutive.

11. Revolving Credit Facility

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 extending the maturity date from January 1, 2007 to December 1, 2009.

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On August 7, 2009, we entered into an amended and restated $20.0 million revolving credit loan agreement with Bank of America, as agent, and Bank of America and Brown Brothers Harriman & Co as lenders. The amended and restated revolving credit facility will mature on August 7, 2012. Borrowings under the credit facility bear interest at the London Interbank Offered Rate (LIBOR) plus 4.0%. The amended and restated facility includes covenants relating to income, debt coverage and cash flow, as well as minimum working capital requirements. The credit facility also contains limitations on our ability to incur additional indebtedness and requires lender approval for acquisitions funded with cash, promissory notes and/or other consideration in excess of $6.0 million and for acquisitions funded solely with equity in excess of $10.0 million.

As of March 31, 2010 and December 31, 2009, we had $11.8 million and $13.3 million, respectively, outstanding under our credit facility. The borrowings under the credit facility were related to our recent acquisition of Denville Scientific. As of March 31, 2010, we were in compliance with all financial covenants contained in the credit facility; we were not subject to any borrowing restrictions under the financial covenants and had available borrowing capacity under our revolving credit facility of $8.2 million.

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, goals, sees, estimates, projects, predicts, intends, think, potential, objectives, optimistic, strategy, 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 the Company s actual results to differ materially from those in the forward-looking statements include the Company s failure to identify potential acquisition candidates, successfully integrate acquired businesses or technologies, successfully negotiate favorable pricing and other terms with acquisition candidates to enable potential acquisitions to close, complete consolidations of business functions, expand our distribution channels, expand our product offerings, introduce new products or commercialize new technologies, including in the field of regenerative medicine, unanticipated costs relating to acquisitions, unanticipated costs arising in connection with the Company s consolidation of business functions and any restructuring initiatives, decreased demand for the Company s products due to changes in our customers needs, our ability to obtain regulatory approvals, including FDA approval, for our products including any products in the field of regenerative medicine, the current size or anticipated size of the regenerative medicine market, the existence and size of opportunities in the regenerative medicine market, our financial position, general economic outlook, or other circumstances, overall economic trends, the seasonal nature of purchasing in Europe, economic, political and other risks associated with international revenues and operations, the impact of the current economic and financial crisis, 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, future changes to the operations or the activities of our subsidiaries due to manufacturing consolidations, 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, research funding levels from endowments at our university customers, impact of any impairment of our goodwill or intangible assets, our acquisition of Genomic Solutions failing to qualify as a tax-free reorganization for federal tax purposes, the amount of earn-out consideration that the Company receives in connection with the disposition of the Company s Capital Equipment Business segment and factors that may impact the receipt of this consideration, such as the revenues of the businesses disposed of, plus factors described under the heading Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 11, 2010. 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

Our strategy focuses on creating value through combining tuck-under acquisitions with organic growth and operational improvements. One of the major drivers of our success in the first quarter of 2010 was our acquisition of Denville Scientific (Denville), which occurred in September 2009. Denville continued to perform well during the first quarter of 2010 and has been

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accretive to our earnings per share since the acquisition. In addition to Denville s positive impact on the first quarter, our core business also performed well. Order growth was widespread but we were particularly pleased to see increases in the sales of our new syringe pumps launched last year.

We expect the main drivers of organic growth going forward to be our continued expansion of our distribution channels and the introduction of new products. Throughout last year and continuing into the first quarter 2010, we maintained our investments in adding field sales people in our Harvard Apparatus, Biochrom and Denville businesses and in introducing new products. In 2009, we launched two new syringe pump products at our Harvard Apparatus business, the KDS Legato 200 and the Harvard Apparatus PHD Ultra., which contributed to the growth in the first quarter 2010, and we expect to launch the third in this series in the second quarter of 2010. We believe these new pumps significantly improve the performance and ease of use of our syringe pump product line.

We expect to launch a major new spectrophotometer at our Biochrom business. Spectrophotometry is the core of our Biochrom product line, and we believe this new product platform will provide both improvements to the technical specifications, such as accuracy and reproducibility, as well as ease of use by adding a color touch screen user interface. This new product has been designed as a platform that we believe will enable us to significantly expand the range of our products at very little extra cost. In addition to our traditional strength in single beam spectrophotometers, we will now be adding dual beam instruments (which are inherently more accurate than single beam instruments) and variable bandwidth instruments, which provide significant extra flexibility to the user. With these new products we believe we will be able to access a larger segment of the entire spectrophotometer market. We think that these new products will help to drive organic growth during 2010 and beyond.

We continue to pursue our tuck-under acquisition strategy.

We believe that through execution of our strategy of organic growth, tuck-under acquisitions and operational improvements that we will be able to strengthen the company and position ourselves well for when the economy recovers. While we expect the initiatives discussed above to positively impact our business, the success of these initiatives is subject to a number of factors, including fluctuations in foreign exchange rates, the current economic and financial condition and their impact on our customers and our ability to obtain credit on terms favorable to us, the competitiveness of our new products, the strength of our intellectual property underlying these products, the success of our marketing efforts and those of our distributors and the other factors described under the heading Item 1A. Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 11, 2010.

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.

Financing

On August 7, 2009, we entered into an amended and restated $20.0 million revolving credit loan agreement with Bank of America, as agent, and Bank of America and Brown Brothers Harriman & Co as lenders. The amended and restated revolving credit facility will mature on August 7, 2012. Borrowings under the credit facility bear interest at LIBOR plus 4.0%. The new facility includes covenants relating to income, debt coverage and cash flow, as well as minimum working capital requirements. The credit facility also contains limitations on our ability to incur additional indebtedness and requires lender approval for acquisitions funded with cash, promissory notes and/or other consideration in excess of $6.0 million and for acquisitions funded solely with equity in excess of $10.0 million.

At March 31, 2010, we had $11.8 million outstanding under our credit facility with Bank of America and Brown Brothers Harriman & Co.

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.

Components of Operating Income

Revenues. We generate revenues by selling apparatus, instruments, devices and consumables through our catalog, our distributors, our direct sales force and our website. For products primarily priced under $10,000, we typically distribute a new, comprehensive catalog every one to three years, 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 distribute catalog supplements that promote selected areas of our

catalog or new products to targeted subsets of our customer base. Future editions of our comprehensive catalog and our catalog supplements will be timed at least in part with the incidence of new product introductions. 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

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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 2010, with approximately 850 pages, 11,000 products and approximately 65,000 copies printed. Revenues from direct sales to end users, derived through our catalog and the electronic version of our catalog on our website, represented approximately 25% and 30%, respectively, of our revenues for the three months ended March 31, 2010 and for the year ended December 31, 2009.

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 three months ended March 31, 2010 and for the year ended December 31, 2009, approximately 46% and 48%, respectively, of our revenues were derived from sales to distributors.

For the three months ended March 31, 2010, approximately 68% of our revenues were derived from products we manufacture; approximately 10% 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 and 22% were derived from distributed products sold under our brand names. For the year ended December 31, 2009, approximately 76% of our revenues were derived from products we manufacture; approximately 15% 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 and 9% were derived from distributed products sold under our brand names.

For the three months ended March 31, 2010 and for the year ended December 31, 2009, approximately 43% and 52%, respectively, of our revenues were derived from sales made by our non-U.S. operations. A large portion of our international sales during these periods consisted of sales to GE Healthcare, the distributor for our spectrophotometers and plate readers. 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 our 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 a higher cost of product revenues as a percent of revenue 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 catalogs, supplements 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 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, 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 spending 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 for existing markets. Additionally, we are working to develop new products aimed at long term opportunities in the emerging field of regenerative medicine.

Stock compensation expenses. Stock-based compensation expense recognized under FASB ASC 718, *Compensation Stock Compensation,* was $0.6 million and $0.3 million for the three months ended March 31, 2010 and 2009, 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.

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Income Taxes

As described in Note 13 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 11, 2010, we have recorded a full valuation allowance against most United States deferred tax assets, net of deferred tax liabilities except deferred tax liabilities related to indefinite lived intangible assets. As we gain more insight into the amount and predictability of taxable income from Denville, our investment requirements for regenerative medicine and certain other factors impacting our U.S. tax position, we may reverse some or all of the valuation allowance in future periods.

Selected Results of Operations

Three months ended March 31, 2010 compared to three months ended March 31, 2009:

	Three Months Ended March 31,			
	2010	2009	Dollar Change	% Change
	(dollars in thousands, unaudited)			
Revenues	$ 26,300	$ 19,072	$ 7,228	37.9%
Cost of product revenues	13,518	9,662	3,856	39.9%
Gross margin percentage	48.6%	49.3%	N/A	