HARVARD BIOSCIENCE INC
Form 10-Q
August 09, 2006
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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, 2006

¨ **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.

At August 1, 2006, there were 30,528,052 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, 2006

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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, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 8,242	$ 7,632
Accounts receivable, net of allowance for doubtful accounts of $368 and $347, respectively	11,080	10,143
Inventories	10,557	9,086
Deferred income tax assets	1,386	1,305
Other receivables and other assets	2,888	3,286
Assets of discontinued operations - held for sale	21,003	23,944
Total current assets	55,156	55,396
Property, plant and equipment, net	4,046	3,983
Deferred income tax assets	273	273
Amortizable intangible assets, net	11,080	11,153
Goodwill and other indefinite lived intangible assets	21,775	21,074
Other assets	137	156
Total assets	$ 92,467	$ 92,035
Liabilities and Stockholders Equity		
Current liabilities:		
Current installments of long-term debt	$ 6,500	$ 21
Accounts payable	3,351	3,379
Deferred revenue	305	275
Accrued income taxes payable	276	647
Accrued expenses	2,211	3,085
Other liabilities	766	700
Liabilities of discontinued operations	5,083	4,889
Total current liabilities	18,492	12,996
Long-term debt, less current installments		8,500
Deferred income tax liabilities	1,233	1,235
Other liabilities	1,005	888
Total liabilities	20,730	23,619
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; 35,188,836 and 35,142,569 shares issued and 30,528,052 and 30,481,785 shares outstanding, respectively	352	351

Additional paid-in-capital	174,730	173,694
Accumulated deficit	(107,923)	(108,139)
Accumulated other comprehensive income	5,246	3,178
Treasury stock, 4,660,784 common shares, at cost	(668)	(668)
Total stockholders equity	71,737	68,416
Total liabilities and stockholders equity	$ 92,467	$ 92,035

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, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
		As Restated		As Restated
Revenues	$ 18,187	$ 16,277	$ 35,557	$ 32,412
Cost of product revenues	8,945	8,283	17,435	16,760
Gross profit	9,242	7,994	18,122	15,652
Sales and marketing expenses	2,356	2,041	4,637	4,091
General and administrative expenses	3,405	3,316	6,600	6,110
Research and development expenses	773	704	1,524	1,574
Amortization of intangible assets	418	418	830	842
Total operating expenses	6,952	6,479	13,591	12,617
Operating income	2,290	1,515	4,531	3,035
Other income (expense):				
Foreign exchange	99	(45)	114	(65)
Interest expense	(161)	(210)	(304)	(448)
Interest income	55	41	95	100
Other, net	(32)	(28)	(59)	21
Other income (expense), net	(39)	(242)	(154)	(392)
Income from continuing operations before income taxes	2,251	1,273	4,377	2,643
Income taxes	466	318	984	803
Income from continuing operations	1,785	955	3,393	1,840
Discontinued operations, net of tax	(2,109)	(24,671)	(3,177)	(25,354)
Net income (loss)	$ (324)	$ (23,716)	$ 216	$ (23,514)
Income (loss) per share:				
Basic earnings per common share from continuing operations	$ 0.06	$ 0.03	$ 0.11	$ 0.06
Discontinued operations	(0.07)	(0.81)	(0.10)	(0.83)
Basic earnings (loss) per common share	$ (0.01)	$ (0.78)	$ 0.01	$ (0.77)
Diluted earnings per common share from continuing operations	$ 0.06	$ 0.03	$ 0.11	$ 0.06
Discontinued operations	(0.07)	(0.80)	(0.10)	(0.82)
Diluted earnings (loss) per common share	$ (0.01)	$ (0.77)	$ 0.01	$ (0.76)

Weighted average common shares:				
Basic	30,506	30,432	30,499	30,423
Diluted	31,039	30,710	31,095	30,801

Net income (loss) for the three and six months ended June 30, 2006 included stock-based compensation expense under Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, of $0.5 million and $0.9 million, respectively, related to employee stock options and employee stock purchases. There was no stock-based compensation expense related to employee stock options, employee stock purchases, and restricted stock grants under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) for the three and six months ended June 30, 2005 because the Company did not adopt the recognition provisions of SFAS 123. See Note 3 to the Consolidated Financial Statements for additional information.

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, 2006	Six Months Ended June 30, 2005 As Restated
Cash flows from operating activities:		
Net income (loss)	$ 216	$ (23,514)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock compensation expense	909	
Depreciation	684	1,311
Abandonment and impairment of assets		17,806
Non-cash restructuring charges		3,685
Amortization of catalog costs	29	94
Loss on sale of property, plant and equipment	18	25
Amortization of intangible assets	830	1,788
Amortization of deferred financing costs	54	54
Deferred income taxes		(52)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in accounts receivable	1,207	3,258
Decrease in inventories	911	239
Decrease in other receivables and other assets	457	84
Decrease in trade accounts payable	(122)	(487)
Decrease in accrued income taxes payable	(391)	(1,337)
Decrease in accrued expenses	(707)	(780)
Increase (decrease) in deferred revenue	(297)	50
Increase (decrease) in other liabilities	61	(424)
Net cash provided by operating activities	3,859	1,800
Cash flows from investing activities:		
Additions to property, plant and equipment	(587)	(733)
Additions to catalog costs	(102)	(2)
Proceeds from sales of property, plant and equipment		28
Acquisition of assets, net of cash acquired	(1,118)	
Net cash used in investing activities	(1,807)	(707)
Cash flows from financing activities:		
Repayments of debt	(2,021)	(1,312)
Net proceeds from issuance of common stock	127	167
Net cash used in financing activities	(1,894)	(1,145)
Effect of exchange rate changes on cash	(80)	(570)
Increase (decrease) in cash and cash equivalents	78	(622)
Cash and cash equivalents at the beginning of period	9,771	13,867
Cash and cash equivalents at the end of period	$ 9,849	$ 13,245

Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 359	$ 489
Cash paid for income taxes	$ 1,020	$ 1,748

Note: The above statement of cash flows includes both continuing and discontinued operations. Cash and cash equivalents include $8,242 held by continuing operations and $1,607 held by discontinued operations as of June 30, 2006.

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, 2006 and for the three and six months ended June 30, 2006 and 2005 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, 2005 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, 2005.

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, 2006, and results of operations and cash flows for the three and six months ended June 30, 2006 and 2005, as applicable, have been made. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The unaudited consolidated financial statements for the three and six months ended June 30, 2005 contain restated financial information. More specifically, during the fourth quarter of 2005, management became aware of an error in the previously reported results of operations for the second quarter of 2005. As a result of a decrease in revenues and operating profit margins in the Capital Equipment Business segment, the Company determined, during the second quarter of 2005, that a portion of its gross deferred tax assets did not meet the more likely than not standard for realization as outlined in SFAS No. 109, *Accounting for Income Taxes*. However, the Company incorrectly recognized $3.5 million of income tax expense to increase the valuation allowance above the amount required. See Note 21 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC.

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.

Certain reclassifications to prior year balances have been made to conform to current year presentations.

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, 2005, filed with the SEC.

2. Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151 *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted SFAS No. 151 on January 1, 2006 and it did not have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29*. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for such exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Company adopted SFAS No. 153 on January 1, 2006 and it did not have a material impact on its consolidated financial statements.

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In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations-an interpretation of FASB Statement No. 143*. This interpretation provides additional guidance as to when companies should record the fair value of a liability for a conditional asset retirement obligation when there is uncertainty about the timing and/or method of settlement of the obligation. The Company adopted FASB Interpretation No. 47 on January 1, 2006 and it did not have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This Statement replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements-an amendment of APB Opinion No. 28*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

In July 2006, the 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. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the company has not yet issued financial statements, including interim financial statements, in the period Interpretation No. 48 is adopted. The Company is currently evaluating the impact the adoption of this interpretation will have on its consolidated results of operations and financial position.

3. Employee Stock Benefit Plans and Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, employee stock purchases related to the Employee Stock Purchase Plan (employee stock purchases), restricted stock and other special equity awards based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company s Consolidated Financial Statements as of and for the three and six months ended June 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the three and six months ended June 30, 2006 was $0.5 million and $0.9 million, respectively, which consisted of stock-based compensation expense related to employee stock options and the employee stock purchase plan. There was no stock-based compensation expense related to employee stock options or the employee stock purchase plan during the three and six months ended June 30, 2005 because the Company had not adopted the recognition provisions under SFAS No. 123, and there was no such expense under APB 25.

SFAS 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 the Company s Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, no stock-based compensation expense was recognized in the Company s Consolidated Statement of Operations when the exercise price of the Company s stock options granted to employees and directors equaled or exceeded the fair market value of the underlying stock at the date of grant.

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Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the Company s Consolidated Statement of Operations for three and six months ended June 30, 2006 included 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 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 123(R). As stock-based compensation expense recognized in the Consolidated Statement of Operations for the three and six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 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 123(R), the Company 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 the Company s pro forma information required under SFAS 123. The Company s determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company s expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors.

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 205,886 shares were issued as of June 30, 2006. 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, 2006, there were options to purchase 241,071 shares outstanding under the 1996 Stock Plan. During the three and six months ended June 30, 2006 and 2005, 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, 2006, there were options to purchase 4,006,578 shares outstanding and 2,357,579 shares available for grant under the 2000 Stock Plan.

As of June 30, 2006 and 2005, incentive stock options to purchase 5,730,177 and 5,627,177 shares and non-qualified stock options to purchase 3,889,368 and 3,837,368 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.

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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. During the three and six months ended June 30, 2005, 597,500 and 603,500 stock options, respectively, were granted to employees at exercise prices equal to or greater than fair market value of the Company s common stock on the date of grant.

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,	
	2006	2005	2006	2005
Shares of common stock outstanding	30,528,052	30,459,721	30,528,052	30,459,721
Granted	20,000	597,500	75,000	603,500
Canceled / forfeited	(26,250)	(94,500)	(78,441)	(214,500)
Expired				
Net options granted	(6,250)	503,000	(3,441)	389,000
Grant dilution (accretion) (1)	-0.02%	1.65%	-0.01%	1.28%
Exercised	13,337	10,000	30,192	45,251
Exercise dilution (2)	0.04%	0.03%	0.10%	0.15%

(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,	
	2006	2005	2006	2005
Basic	30,505,637	30,432,220	30,498,753	30,422,559
Effect of assumed conversion of employee stock options	533,556	277,549	595,878	378,089
Diluted	31,039,193	30,709,769	31,094,631	30,800,648

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 2,726,396 shares of common stock for the three months ended June 30, 2006 and 2005, 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 2,166,837 and 2,443,897 shares of common stock for the six months ended June 30, 2006 and 2005, respectively, as the impact of these shares would be anti-dilutive.

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General Option Information

A summary of stock option transactions follows:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2003	1,928,395	2,906,339	$ 4.42
Options granted	(1,605,000)	1,605,000	7.44
Options exercised		(203,099)	3.30
Options cancelled / forfeited	340,069	(340,069)	4.84
Additional shares reserved	38,398		
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	(75,000)	75,000	4.41
Options exercised		(30,192)	2.16
Options cancelled / forfeited	78,441	(78,441)	5.69
Balance at June 30, 2006	2,357,579	4,247,649	$ 5.28

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, 2006 (Aggregate Intrinsic Value in thousands):

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number Outstanding at June 30, 2006	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares Exercisable at June 30, 2006	Weighted Average Exercise Price	Aggregate Intrinsic Value
$0.01-2.99	766,549	7.00	$ 2.34	$ 1,615	406,799	$ 1.78	$ 1,086
$3.00-3.42	864,350	7.22	$ 3.11	$ 1,160	534,727	$ 3.10	$ 722
$3.42-4.39	548,250	7.34	$ 3.82	$ 345	320,250	$ 3.75	$ 224
$4.39-7.91	883,500	6.02	$ 6.99	$	771,835	$ 7.29	$
$7.99-10.00	1,185,000	7.52	$ 8.18	$	640,167	$ 8.21	$
$0.01-10.00	4,247,649	7.03	$ 5.28	$ 3,120	2,673,778	$ 5.41	$ 2,032

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company s closing stock price of $4.45 as of June 30, 2006, 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 and six months ended June 30, 2006 was approximately $0.02 million and $0.07 million, respectively. The total number of in-the-money options that were exercisable as of June 30, 2006 was 1,261,776.

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Valuation and Expense Information under SFAS 123(R)

Stock-based compensation expense related to employee stock options and the employee stock purchase plan under SFAS123(R) for the three and six months ended June 30, 2006 was allocated as follows:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
	(in thousands)	
Cost of product revenues	$ 10	$ 20
Sales and marketing expenses	30	58
General and administrative expenses	372	737
Research and development expenses	3	6
Discontinued operations	56	88
Total stock-based compensation expense	$ 471	$ 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, 2006 because we have established a valuation allowance against our net deferred tax assets.

The table below reflects net income per share, basic and diluted, for the three and six months ended June 30, 2006 compared with the pro forma information for the three and six months ended June 30, 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005 As Restated	2006	2005 As Restated
	(in thousands, except per share data)			
Net loss, as reported in prior periods (1)	N/A	$ (23,716)	N/A	$ (23,514)
Deduct: total stock-based employee compensation expense determined under fair-value based method for all awards, net of tax (2)	(461)	(895)	(888)	(1,697)
Net income (loss) including stock-based compensation (3)	$ (324)	$ (24,611)	$ 216	$ (25,211)
Net income (loss) per share:				
Basic- as reported (1)	N/A	$ (0.78)	N/A	$ (0.77)
Basic - including stock-based compensation (3)	$ (0.01)	$ (0.81)	$ 0.01	$ (0.83)
Diluted - as reported (1)	N/A	$ (0.77)	N/A	$ (0.76)
Diluted - including stock-based compensation (3)	$ (0.01)	$ (0.80)	$ 0.01	$ (0.82)

(1) Net loss and net loss per share prior to 2006 did not include stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123 because we did not adopt the recognition provisions of SFAS 123.
(2) Stock-based compensation expense prior to 2006 was calculated based on the pro forma application of SFAS 123 as previously disclosed in the notes to the Consolidated Financial Statements.
(3) Net loss and net loss per share prior to 2006 represents pro forma information based on SFAS 123 as previously disclosed in the notes to the Consolidated Financial Statements.

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 using the Black Scholes option-pricing model with the following weighted-average assumptions:

	Six Months Ended June 30, 2006
Volatility	76.87%
Risk-free interest rate	5.09%
Expected holding period	6.25 years
Dividend yield	0%

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The Company used historical volatility to calculate its expected volatility as of June 30, 2006. 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 SAB 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 six months ended June 30, 2006 is based on awards ultimately expected to vest and has been reduced for annualized estimated forfeitures of 3.64%. SFAS 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.

Pro Forma Information Under SFAS 123 for Periods Prior to 2006

The weighted-average estimated value of employee stock options granted during the three and six months ended June 30, 2005 was $2.07 per share and $2.08 per share using the Black Scholes option-pricing model with the following weighted-average assumptions:

	Six Months Ended June 30, 2005
Volatility	94.72%
Risk-free interest rate	3.85%
Expected holding period	4 years
Dividend yield	0%

For purposes of pro forma disclosures under SFAS 123, the estimated fair value of the options is assumed to be amortized to expense over the options vesting period.

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. The Company currently anticipates it will sell the Capital Equipment Business segment in a single transaction prior to the end of the fourth quarter of 2006.

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 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 have been classified within discontinued operations for the six months ended June 30, 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, 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 have been classified within discontinued operations for the six months ended June 30, 2005.

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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 believes 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, may 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 were recorded during the fourth quarter of 2005. The Company used a combination of an income and market approaches to determine the fair value of the disposal group.

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

	Three Months Ended June 30,		Six Months Ended June 30,
	2006	**2005**	**2006**