HARVARD BIOSCIENCE INC
Form 10-Q
November 09, 2011
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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 September 30, 2011

¨ **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	**(IRS Employer**
Incorporation or Organization)	**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). x 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 November 1, 2011, there were 28,499,350 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 September 30, 2011

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PART I. FINANCIAL INFORMATION

Financial Statements.

HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands, except share and per share amounts)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 16,237	$ 19,704
Accounts receivable, net of allowance for doubtful accounts of $260 and $273, respectively	13,623	15,440
Inventories	20,101	15,832
Deferred income tax assets - current	5,746	5,441
Other receivables and other assets	2,718	2,149
Total current assets	58,425	58,566
Property, plant and equipment, net	3,082	3,146
Deferred income tax assets - non-current	6,139	6,125
Amortizable intangible assets, net	22,051	21,908
Goodwill	35,741	33,416
Other indefinite lived intangible assets	1,284	1,276
Other assets	246	360
Total assets	$ 126,968	$ 124,797
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 5,265	$ 4,925
Deferred revenue	360	451
Accrued income taxes payable	362	578
Accrued expenses	3,800	4,693
Other liabilities - current	428	649
Total current liabilities	10,215	11,296
Long-term debt, less current installments	16,305	18,009
Deferred income tax liabilities - non-current	980	954
Other liabilities - non-current	3,491	4,290
Total liabilities	30,991	34,549
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; 36,238,607 and 36,057,974 shares issued and 28,493,100 and 28,312,467 shares outstanding, respectively	362	361
Additional paid-in-capital	190,212	187,893
Accumulated deficit	(80,368)	(83,442)

Accumulated other comprehensive income	(3,561)	(3,896)
Treasury stock at cost, 7,745,507 common shares	(10,668)	(10,668)
Total stockholders equity	95,977	90,248
Total liabilities and stockholders equity	$ 126,968	$ 124,797

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HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited, in thousands, except per share amounts)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	$ 26,381	$ 26,453	$ 79,837	$ 78,658
Cost of product revenues	14,503	13,886	42,804	41,259
Gross profit	11,878	12,567	37,033	37,399
Sales and marketing expenses	4,361	4,101	12,809	12,100
General and administrative expenses	4,560	4,407	13,122	12,475
Research and development expenses	1,554	1,240	3,948	3,549
Restructuring charges	477	283	449	283
Amortization of intangible assets	706	593	2,016	1,702
Total operating expenses	11,658	10,624	32,344	30,109
Operating income	220	1,943	4,689	7,290
Other (expense) income:				
Gain from adjustment of acquisition contingencies				429
Foreign exchange	(11)	(2)	(44)	(109)
Interest expense	(216)	(196)	(602)	(479)
Interest income	17	11	48	60
Other, net	(128)	(193)	(534)	(310)
Other (expense) income, net	(338)	(380)	(1,132)	(409)
(Loss) Income before income taxes	(118)	1,563	3,557	6,881
Income tax (benefit) expense	(146)	(11,167)	483	(9,951)
Net income	$ 28	$ 12,730	$ 3,074	$ 16,832
Income per share:				
Basic earnings per common share	$ 0.00	$ 0.45	$ 0.11	$ 0.58
Diluted earnings per common share	$ 0.00	$ 0.44	$ 0.10	$ 0.57
Weighted average common shares:				
Basic	28,489	28,443	28,435	29,197
Diluted	29,896	28,786	29,861	29,586

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HARVARD BIOSCIENCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 3,074	$ 16,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	2,064	1,992
Depreciation	969	898
Gain on acquisition contingencies		(429)
Gain on sales of fixed assets	(35)	(9)
Non-cash restructuring charge	280	
Amortization of catalog costs	226	256
Provision for allowance for doubtful accounts		(30)
Amortization of intangible assets	2,016	1,702
Amortization of deferred financing costs	67	67
Deferred income taxes	(294)	(11,031)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,910	550
Increase in inventories	(3,460)	(1,406)
Increase in other receivables and other assets	(445)	(261)
Increase (decrease) in trade accounts payable	321	(193)
(Decrease) increase in accrued income taxes payable	(291)	29
Decrease in accrued expenses	(1,427)	(547)
Decrease in deferred revenue	(93)	(20)
Decrease in other liabilities	(877)	(356)
Net cash provided by operating activities	4,005	8,044
Cash flows used in investing activities:		
Additions to property, plant and equipment	(1,152)	(615)
Additions to catalog costs	(154)	(376)
Proceeds from sales of property, plant and equipment	21	22
Acquisitions, net of cash acquired	(5,165)	(6,115)
Net cash used in investing activities	(6,450)	(7,084)
Cash flows used in financing activities:		
Net proceeds from issuance of debt		10,350
Repayments of debt	(1,703)	(5,662)
Purchases of treasury stock		(5,000)
Net proceeds from issuance of common stock	449	194
Net cash used in financing activities	(1,254)	(118)
Effect of exchange rate changes on cash	232	(213)

(Decrease) Increase in cash and cash equivalents	(3,467)	629
Cash and cash equivalents at the beginning of period	19,704	16,588
Cash and cash equivalents at the end of period	$ 16,237	$ 17,217
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 491	$ 453
Cash paid for income taxes, net of refunds	$ 1,574	$ 1,059

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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 September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 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, 2010 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, 2010, which was filed with the SEC on March 16, 2011.

In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present a fair statement of financial position as of September 30, 2011, results of operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010, as applicable, have been made. The results of operations for the three and nine months ended September 30, 2011 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, 2010, which was filed with the SEC on March 16, 2011.

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. This standard was applicable to the Company beginning January 1, 2011 and did not have a material impact on its consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures* (ASU 2010-06), to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the settlements relating to Level 3 measurements. This standard was applicable to the Company beginning January 1, 2011 and did not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, *Intangibles: Goodwill and Other (Topic 350)- When to perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or negative carrying amounts (ASU 2010-28).* The amendment in this ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, the entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This standard was applicable to the Company beginning January 1, 2011 and did not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplemental Pro Forma Information for Business Combinations (ASU 2010-29)*. This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. This update also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This standard was applicable to the Company beginning January 1, 2011 and did not have a material impact on its consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04)*. This ASU provides guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. The provisions of this update will be applied prospectively and will be effective for us in fiscal years beginning after December 15, 2011, and for the interim periods within fiscal years with early adoption not permitted. In the period of adoption, the entity will be required to disclose a change, if any, in valuation technique and related inputs that result from applying the ASU and to quantify the total effect, if practicable. We believe adoption of this new guidance will not have a material impact on our consolidated results of operations or financial position.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income (ASU 2011-05)*. This ASU gives the entity an option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. The provisions of this update will be applied retrospectively and will be effective for us in fiscal years beginning after December 15, 2011, and for the interim periods within fiscal years with early adoption permitted. We believe adoption of this new guidance will not have a material impact on our consolidated results of operations or financial position.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles- Goodwill and Other (ASU 2011-08)*. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The provisions of this update will be applied retrospectively and will be effective for us in fiscal years beginning after December 15, 2011, and for the interim periods within fiscal years with early adoption permitted. We believe adoption of this new guidance will not have a material impact on our consolidated results of operations or financial position.

3. Goodwill and Other Intangible Assets

Intangible assets consist of the following:

	September 30, 2011		**December 31, 2010**		**Weighted Average Life (a)**
	(in thousands)				
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	
Amortizable intangible assets:					
Existing technology	$ 12,603	$ (8,990)	$ 12,501	$ (8,148)	5.3 Years
Tradename	5,800	(1,243)	4,913	(983)	13.0 Years
Distribution agreement/customer relationships	19,982	(6,104)	18,740	(5,118)	12.1 Years
Patents	9	(6)	9	(6)	4.6 Years
Total amortizable intangible assets	38,394	$ (16,343)	36,163	$ (14,255)	

Unamortizable intangible assets:		
Goodwill	35,741	33,416
Other indefinite lived intangible assets	1,284	1,276
Total goodwill and other indefinite lived intangible assets	37,025	34,692
Total intangible assets	$ 75,419	$ 70,855

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(a) Weighted average life is as of September 30, 2011

The change in the carrying amount of goodwill for the nine months ended September 30, 2011 is as follows:

Goodwill rollforward

	(in thousands)
Balance at December 31, 2010	$ 33,416
Goodwill arising from business combination	2,249
Effect of change in foreign currencies	76
Balance at September 30, 2011	$ 35,741

Intangible asset amortization expense was $0.7 million and $0.6 million for the three months ended September 30, 2011 and 2010, respectively. Intangible asset amortization expense was $ 2.0 million and $1.7 million for the nine months ended September 30, 2011 and 2010, respectively. Amortization expense of existing amortizable intangible assets is currently estimated to be $2.7 million for the year ending December 31, 2011, $2.6 million for the year ending December 31, 2012, $2.4 million for the year ending December 31, 2013, $2.2 million for the year ending December 31, 2014 and $1.9 million for the year ending December 31, 2015.

4. Inventories

Inventories consist of the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Finished goods	$ 9,250	$ 7,174
Work in process	848	596
Raw materials	10,003	8,062
Total	$ 20,101	$ 15,832

5. Restructuring and Other Exit Costs

2011 Restructuring Plans

During the quarter ended September 30, 2011, the management of Harvard Bioscience initiated a plan to relocate our Hoefer subsidiary s San Francisco, California facility as part of a business improvement initiative. The Company also developed a plan to improve operating margins at our Coulbourn Instruments subsidiary. The Company recorded restructuring charges of approximately $0.5 million, which included $0.3 million in fixed asset write offs, $0.1 million in severance payments and $0.1 million in other expenses. The Company expects to incur approximately $0.1 million during the fourth quarter of 2011.

Aggregate restructuring charges relating to the 2011 Restructuring Plan were as follows:

	Severance and Related Costs	Fixed Asset Write offs	Other	Total
		(in thousands)		
Restructuring charges	$ 56	$ 307	$ 114	$ 477
Cash payments	(33)		(102)	(135)
Non-cash charges		(307)		(307)

Restructuring balance at September 30, 2011	$ 23	$	$ 12	$ 35

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2010 Restructuring Plan

During the third quarter of 2010, the management of Harvard Bioscience developed a plan to streamline its operations at Panlab, the Harvard Apparatus business in Spain. The plan included workforce reduction in all functions of the organization. During the third quarter of 2010, the Company recorded restructuring charges of approximately $0.3 million, representing severance payments to employees. No charges were incurred beyond the third quarter of 2010 on this matter.

The restructuring charges related to the 2010 Restructuring Plan were as follows:

	Severance and related Costs	Total
Restructuring charges	$ 283	$ 283
Cash payments	(283)	(283)
Restructuring balance at December 31, 2010	$	$

Aggregate restructuring charges for the 2011 Restructuring Plan and the 2010 Restructuring Plan were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Restructuring charges	$ 477	$ 283	$ 449	$ 283

6. Acquisitions

CMA Microdialysis AB

On July 1, 2011, the Company, through its wholly-owned subsidiary in Sweden and its Harvard Apparatus U.S. division, acquired substantially all of the assets of the preclinical business unit of CMA Microdialysis AB (CMA), with its principal offices in Solna, Sweden, for approximately $5.2 million. The Company funded the acquisition from its existing cash balances.

CMA is a manufacturer of microdialysis products and has pioneered the microdialysis technique for *in vivo* sampling and monitoring of organs and tissues. This acquisition is complementary to the current Harvard Apparatus research products for neuroscience applications.

We have preliminarily allocated the purchase price for the CMA Microdialysis acquisition. The aggregate purchase price for this acquisition was preliminarily allocated to tangible and intangible assets acquired as follows:

	(in thousands)
Tangible assets	$ 881
Liabilities assumed	(155)
Net assets assumed	726
Goodwill and intangible assets:	
Goodwill	2,249
Customer relationships	1,250
Trade name	940

Total goodwill and intangible assets		4,439
Acquisition purchase price	$	5,165

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Direct acquisition costs recorded in other net, in our consolidated statements of operations, were $0.1 million and $0.5 million for the three and nine months ended September 30, 2011, respectively.

The results of operations for CMA Microdialysis have been included in our consolidated financial statements from the date of acquisition. The financial results of this acquisition are considered immaterial for the purposes of proforma financial statement disclosures. Goodwill recorded as a result of the acquisition of CMA Microdialysis is deductible for tax purposes.

7. Warranties

Warranties are estimated and accrued 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, 2010	$ 162	$ (54)	$ 50	$ 158
Nine months ended September 30, 2011	$ 158	$ (44)	$ 36	$ 150

8. Comprehensive Income (Loss)

As of September 30, 2011, accumulated other comprehensive income consisted of cumulative foreign currency translation adjustments of $(0.9) 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 (loss) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income	$ 28	$ 12,730	$ 3,074	$ 16,832
Other comprehensive (loss) income	(1,837)	2,693	335	(843)
Comprehensive (loss) income	$ (1,809)	$ 15,423	$ 3,409	$ 15,989

Other comprehensive (loss) income for the three and nine months ended September 30, 2011 and 2010 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 September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
		(in thousands)		
Components of net periodic benefit cost:				
Service cost	$ 59	$ 48	$ 171	$ 136
Interest cost	200	209		