HARVARD BIOSCIENCE INC
Form DEF 14A
April 10, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Harvard Bioscience, Inc.

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(l) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HARVARD BIOSCIENCE, INC.

84 October Hill Road

Holliston, Massachusetts 01746-1371

April 14, 2006

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Harvard Bioscience, Inc. (the Annual Meeting) to be held on Thursday, May 18, 2006 at 9:30 a.m. local time, at the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, Massachusetts 02109.

The Annual Meeting has been called for the purpose of (i) electing three Class III Directors for three-year terms, such terms to continue until the annual meeting of stockholders in 2009 and until such Directors successors are duly elected and qualified or until their earlier resignation or removal; (ii) to consider and vote on a proposal to amend the Harvard Bioscience, Inc. Amended and Restated 2000 Stock Option and Incentive Plan to increase the number of shares available for issuance thereunder by 2,000,000; and (iii) to consider and vote upon such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 31, 2006 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors of Harvard Bioscience, Inc. recommends that you vote FOR the election of the nominees of the Board of Directors as Directors of Harvard Bioscience, Inc. and that you vote FOR the proposal to amend the 2000 Stock Option and Incentive Plan.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE. IF YOU ATTEND THE MEETING, YOU MAY DECIDE TO CONTINUE TO HAVE YOUR SHARES VOTED AS YOU INSTRUCTED IN THE PROXY CARD OR YOU MAY WITHDRAW YOUR PREVIOUSLY COMPLETED PROXY AND VOTE YOUR SHARES IN PERSON.

Sincerely,

Chane Graziano

Chief Executive Officer

HARVARD BIOSCIENCE, INC.

84 October Hill Road

Holliston, Massachusetts 01746-1371

(508) 893-8999

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Thursday, May 18, 2006

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Harvard Bioscience, Inc. (the Company) will be held on Thursday, May 18, 2006, at 9:30 a.m. local time, at the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, Massachusetts 02109 (the Annual Meeting), for the purpose of considering and voting upon:

1. The election of three Class III Directors for three-year terms, such terms to continue until the annual meeting of stockholders in 2009 and until such Directors successors are duly elected and qualified or until their earlier resignation or removal;

2. A proposal to amend the Harvard Bioscience, Inc. Amended and Restated 2000 Stock Option and Incentive Plan to increase the number of shares available for issuance thereunder by 2,000,000; and

3. Such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 31, 2006 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Only holders of Common Stock of record at the close of business on that date will be entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

In the event there are not sufficient shares to be voted in favor of any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies.

By Order of the Board of Directors,

Chane Graziano

Secretary and Chief Executive Officer

Holliston, Massachusetts

April 14, 2006

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE. IF YOU ATTEND THE MEETING, YOU MAY DECIDE TO CONTINUE TO HAVE YOUR SHARES VOTED AS YOU INSTRUCTED IN THE PROXY CARD OR YOU MAY WITHDRAW YOUR PREVIOUSLY COMPLETED PROXY AND VOTE YOUR SHARES IN PERSON.

HARVARD BIOSCIENCE, INC.

84 October Hill Road

Holliston, Massachusetts 01746-1371

(508) 893-8999

PROXY STATEMENT

Annual Meeting of Stockholders to Be Held on Thursday, May 18, 2006

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Harvard Bioscience, Inc. (the Company) for use at the Annual Meeting of Stockholders of the Company to be held on Thursday, May 18, 2006 at 9:30 a.m. local time, at the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, Massachusetts 02109, and any adjournments or postponements thereof (the Annual Meeting). At the Annual Meeting, the stockholders of the Company will be asked to consider and vote upon:

1. The election of three Class III Directors for three-year terms, such terms to continue until the annual meeting of stockholders in 2009 and until such Directors successors are duly elected and qualified or until their earlier resignation or removal;

2. A proposal to amend the Amended and Restated 2000 Stock Option and Incentive Plan to increase the number of shares available for issuance thereunder by 2,000,000; and

3. Such other business as may properly come before the meeting and any adjournments or postponements thereof.

The Notice of Annual Meeting, Proxy Statement and Proxy Card are first being mailed to stockholders of the Company on or about April 14, 2006, in connection with the solicitation of proxies for the Annual Meeting. The Board of Directors has fixed the close of business on March 31, 2006 as the Record Date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Only holders of Common Stock, par value $.01 per share, of the Company (the Common Stock) of record at the close of business on the Record Date will be entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, there were approximately 30,500,890 shares of Common Stock outstanding and entitled to vote at the Annual Meeting and approximately 211 stockholders of record. Each holder of a share of Common Stock outstanding as of the close of business on the Record Date will be entitled to one vote for each share held of record with respect to each matter submitted at the Annual Meeting.

The presence, in person or by proxy, of holders of at least a majority of the total number of outstanding shares of Common Stock entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Shares held of record by stockholders or their nominees who do not return a signed and dated proxy or attend the Annual Meeting in person will not be considered present or represented at the Annual Meeting and will not be counted in determining the presence of a quorum. Directors are elected by a plurality of the votes cast if a quorum is present. In a plurality election, votes may only be cast in favor of or withheld from each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect. This means that the three persons receiving the highest number of FOR votes will be elected as Directors. Abstentions and broker non-votes will be counted for the purpose of determining a quorum, but will not be counted for the purpose of determining the number of votes cast on a given proposal. Because directors are elected by plurality, abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on its outcome. Proposal 2 will be decided by a majority of the votes cast for and against such matter. As a result, abstentions and broker non-votes on this proposal will have no effect.

We encourage you to vote by returning your proxy or voting instruction form. This ensures that your shares will be voted at the meeting and reduces the likelihood that the Company will be forced to incur additional expenses soliciting proxies for the annual meeting.

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Any record holder may attend the annual meeting in person and may revoke the enclosed proxy at any time by: (i) executing and delivering to the corporate secretary a later-dated proxy; (ii) delivering a written revocation to the corporate secretary before the meeting; or (iii) voting in person at the annual meeting.

Beneficial holders who wish to change or revoke their voting instructions should contact their brokerage firm, bank or other financial institution for information on how to do so. Beneficial holders who wish to attend the annual meeting and vote in person should contact their brokerage firm, bank or other financial institution holding shares of common stock on their behalf in order to obtain a legal proxy , which will allow them to vote in person at the meeting. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Stockholders of the Company are requested to complete, date, sign and return the accompanying Proxy Card in the enclosed envelope. Common Stock represented by properly executed proxies received by the Company and not revoked will be voted at the Annual Meeting in accordance with the instructions contained therein. If instructions to the contrary are not given therein, properly executed proxies will be voted FOR the election of the nominees for Director listed in this Proxy Statement and FOR Proposal 2. If other matters are presented, proxies will be voted in accordance with the discretion of the proxy holders.

The Annual Report to Shareholders of the Company, including consolidated financial statements for the year ended December 31, 2005 is being mailed to stockholders of the Company concurrently with this Proxy Statement. The Annual Report, however, is not part of the proxy solicitation material.

PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors of the Company currently consists of seven members and is divided into three classes of Directors, with two Directors in Class I, two Directors in Class II and three Directors in Class III. Directors serve for three-year terms with one class of Directors being elected by the Company s stockholders at each annual meeting to succeed the Directors of the same class whose terms are then expiring.

At the Annual Meeting, three Class III Directors will be elected to serve until the 2009 annual meeting of stockholders and until their successors are duly elected and qualified or until their earlier resignation or removal.

At the recommendation of the Governance Committee, the Board of Directors has nominated Chane Graziano, Earl R. Lewis and George Uveges for election as the Class III Directors. Unless otherwise specified in the proxy, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election of Messrs. Graziano, Lewis and Uveges. The nominees have agreed to stand for election and, if elected, to serve as Directors. However, if any person nominated by the Board of Directors is unable to serve or for good cause will not serve, the proxies will be voted for the election of such other person or persons as the Governance Committee and the Board of Directors may recommend.

Vote Required

The affirmative vote of holders of a plurality of the votes cast by holders of shares of Common Stock present or represented by proxy and entitled to vote on the matter at the Annual Meeting is required for the election of each nominee as a Director of the Company.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES OF THE BOARD OF DIRECTORS: CHANE GRAZIANO, EARL R. LEWIS AND GEORGE UVEGES. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED *FOR* EACH OF THE NOMINEES UNLESS INSTRUCTIONS TO WITHHOLD OR TO THE CONTRARY ARE GIVEN.

INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information regarding the Directors and executive officers of the Company, including the Class III Directors who have been nominated for election at the Annual Meeting, based on information furnished to the Company by each Director and executive officer. The Board of Directors has determined that all of the Director nominees and incumbent Directors listed below are independent as such term is currently defined in the applicable listing standards of the National Association of Securities Dealers, Inc. (the Nasdaq listing standards), except for Messrs. Graziano and Green who are also executive officers of the Company. The following information is current as of February 28, 2006:

Directors of Harvard Bioscience, Inc.

Name	Age	Position with the Company	Director Since
Class I Directors Term expires 2007			
Robert Dishman (2)(3)	61	Director	2000
Neal J. Harte (1)(3)	62	Director	2004
Class II Directors Term expires 2008			
David Green	41	President and Director	1996
John F. Kennedy (1)(2)	57	Director	2000
Class III Directors Term expires 2006			
*Chane Graziano**	67	Chief Executive Officer and Chairman	1996
*Earl R. Lewis** (2)(3)	62	Director	2000
*George Uveges** (1)	58	Director	2006

* Nominees for election.
(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Governance Committee

Nominees for Election as Class III Directors Term Expires 2009

Chane Graziano has served as the Company s Chief Executive Officer and Chairman of the Board of Directors of the Company since March 1996. Prior to joining the Company, Mr. Graziano served as the President of Analytical Technology Inc., an analytical electrochemistry instruments company, from 1993 to 1996 and as the President and Chief Executive Officer of its predecessor, Analytical Technology Inc.-Orion, an electrochemistry instruments and laboratory products company, from 1990 until 1993. Mr. Graziano served as the President of Waters Corporation, an analytical instrument manufacturer, from 1985 until 1989. Mr. Graziano has over 42 years experience in the laboratory products and analytical instruments industry. Mr. Graziano serves on the Board of Directors of Nova Analytics Corporation and Advion BioSciences, Inc.

Earl R. Lewis has served as a Director of the Company since October 2000 and currently serves as Chairman of the Governance Committee and is a member of the Compensation Committee. Mr. Lewis has served as the Chairman, Chief Executive Officer and President of FLIR Systems, Inc., a designer, manufacturer and marketer of thermal imaging and infrared camera systems, since November 2000. Mr. Lewis previously served in various capacities with Thermo Instrument Systems, Inc. (now merged into Thermo Electron Corporation) beginning in 1986 and was subsequently named President in 1997 and Chief Executive Officer in 1998. ThermoElectron Corporation develops, manufactures and markets measuring and controlling devices. Mr. Lewis formerly was Chairman of Thermo BioAnalysis Corporation, Thermo Vision Corporation, Thermo Optek Corporation, ThermoQuest Corporation, each of which is a developer of laboratory analytical instruments, and ONIX Systems, Inc., a developer of measuring and controlling devices. Mr. Lewis currently serves on the Board of Directors of Seahorse Bioscience, Inc. and American DG, Inc. Mr. Lewis also serves on the Board of Trustees of Dean College.

George Uveges has served as a Director of the Company since March 2006 and is a member of the Audit Committee. Mr. Uveges is the founder and principal in the Tallwood Group, an angel-investing firm that provides financial and management advisory services in addition to investment capital. From 2001 to 2004, Mr. Uveges served as the President and Chief Executive Officer of TranXenoGen, Inc., a development stage biotechnology company that was listed on the Alternative Investment Market of the London Stock Exchange during that period. He was also a Director of that company from 2001 to 2005. Mr. Uveges was, from 2000 to 2001, the Chief Operating Officer of BioSource International, Inc., a publicly held company engaged in developing a broad-based offering of life science tools. Mr. Uveges serves on the Board of Directors of MFIC Corporation. Mr. Uveges is a member of the American Institute of Certified Public Accountants, Financial Executives International and the National Association of Corporate Directors. Mr. Uveges holds a B.B.A. from Cleveland State University and an M.B.A. from Baldwin Wallace College.

Incumbent Class I Directors Term Expires 2007

Robert Dishman has served as a Director of the Company since October 2000 and currently serves as Chairman of the Compensation Committee and is a member of the Governance Committee. Since 2002, Mr. Dishman has served as the Chief Executive Officer and President of Molecular Recognition, Inc., a private investment company. From 2000 to 2002, Mr. Dishman had served as the Chief Executive Officer of Serenex, Inc., an integrated oncology-focused drug discovery and development company. From 1994 to 2000, Mr. Dishman served in various positions with Dyax Corp (formerly Biotage, Inc.), a biological research and drug discovery company, including Executive Vice President and Director of Dyax Corp and President of Dyax Separations Division a manufacturer and distributor of chemical separations products. Mr. Dishman is currently the non-executive chairman of Xcellerex LLC. Mr. Dishman holds a Ph.D. in Analytical Chemistry from the University of Massachusetts Amherst.

Neal J. Harte has served as a Director of the Company since February 2004 and is a member of the Audit Committee and the Governance Committee. Since 2003, Mr. Harte has served as the President of the TACS Group, a consulting firm. From 2002 to 2003, Mr. Harte served as the Executive Vice President and Vice Chairman of Vitale, Caturano & Company. From 1974 to 2002, Mr. Harte served as the President of Harte, Carucci & Driscoll, P.C., a CPA firm. Mr. Harte serves on the Board of Directors of Winchester Savings Bank. Mr. Harte is a member of the American Institute of Certified Public Accountants and serves as a Council at Large. Mr. Harte holds a B.S. degree in accounting from Boston College and holds a M.S. in taxation from Bentley College.

Incumbent Class II Directors Term Expires 2008

David Green has served as the Company s President and a member of the Board of Directors of the Company since March 1996. Prior to joining the Company, Mr. Green was a strategy consultant with Monitor Company, a strategy consulting company, in Cambridge, Massachusetts and Johannesburg, South Africa from June 1991 until September 1995 and a brand manager for household products with Unilever PLC, a packaged consumer goods company, in London from September 1985 to February 1989. Mr. Green graduated from Oxford University with a B.A. Honors degree in physics and holds a M.B.A. degree with distinction from Harvard Business School.

John F. Kennedy has served as a Director of the Company since October 2000. Since July 2002, Mr. Kennedy has served as the President and Chief Financial Officer of Nova Analytics Corporation, a worldwide supplier and integrator of analytical instruments. From August 1999 to April 2002, Mr. Kennedy served as the Senior Vice President, Finance, Chief Financial Officer and Treasurer of RSA Security Inc., an e-business security company. Prior to joining RSA Security, Mr. Kennedy was Chief Financial Officer of Decalog, NV, a developer of enterprise investment management software, from 1998 to 1999. From 1993 to 1998, Mr. Kennedy served as Vice President of Finance, Chief Financial Officer and Treasurer of Natural MicroSystems Corporation, a telecommunications company. Mr. Kennedy holds an M.S.B.A. in Accounting from the University of Massachusetts-Amherst.

Executive Officers Who Are Not Directors

The following table shows information about our executive officers who are not Directors as of December 31, 2005.

Name	Age	Position
Bryce Chicoyne	36	Chief Financial Officer
Susan Luscinski	49	Chief Operating Officer
David Strack	59	President of Genomic Solutions, Inc. and Union Biometrica, Inc.
Mark Norige	51	Chief Operating Officer of the Harvard Apparatus Business Unit

Bryce Chicoyne has served as our Chief Financial Officer since August 2004. Prior to joining Harvard Bioscience, Mr. Chicoyne served from December 2002 to August 2004 as Director of Financial Reporting with Apogent Technologies Inc. (now a subsidiary of Fisher Scientific Inc.), a developer and manufacturer of products for the clinical and research industries. From May 2000 to December 2002, Mr. Chicoyne served as the Manager of Financial Reporting of Sonus Networks, Inc., a provider of voice over IP infrastructure solutions for wireline and wireless service providers. Mr. Chicoyne holds a B.S. in accounting from the University of Southern New Hampshire and a M.B.A. from the F.W. Olin School of Business at Babson College.

Susan Luscinski has served as our Chief Operating Officer since August 2004. Ms. Luscinski served as our Chief Financial Officer from August 2001 until August 2004 and Vice President of Finance and Administration from May 1999 until August 2001. Ms. Luscinski served as our Corporate Controller from May 1988 until May 1999 and has served in various other positions at our company and its predecessor since January 1985.

David Strack has served as the President of our Union Biometrica subsidiary since 2001 and President of our Genomic Solutions subsidiary since March 2004. Prior to joining Harvard Bioscience, Dr. Strack served from 2000 to 2001 as President and Chief Operating Officer of Folia Inc., a biodegradable specialty polymers company. From 1996 to 1999, Dr. Strack served as President and Chief Operating Officer of Synthon Corporation, a chemicals company producing specialized chemicals for pharmaceutical companies. Dr. Strack has over 25 years experience in sales, marketing and general management, primarily in the laboratory instruments arena, including six years as President of the N.A. Instruments Division of ATI, and 13 years at Waters Corporation, progressing through market and product management, field sales management, VP for Pacific (Tokyo) and President of the consumables business unit. Dr. Strack holds a B.S. degree in chemistry from Rochester Institute of Technology, a Ph.D. degree in chemistry from Syracuse University, and a M.B.A. degree in marketing from Fairleigh Dickinson University.

Mark Norige has served as our Chief Operating Officer of the Harvard Apparatus business unit since January 2000 and in various other positions with us since September 1996. Prior to joining Harvard Bioscience, Mr. Norige served as a Business Unit Manager at QuadTech, Inc., an impedance measuring instrument manufacturer, from May 1995 until September 1996. Mr. Norige worked at Waters Corporation from 1977 until May 1995. Mr. Norige holds a B.S. degree from Lowell Technological Institute and a M.B.A. from Babson College.

PROPOSAL 2:

APPROVAL OF AMENDMENT TO AMENDED AND RESTATED

2000 STOCK OPTION AND INCENTIVE PLAN

The Company is proposing that its stockholders approve an amendment to the Harvard Bioscience, Inc. Amended and Restated 2000 Stock Option and Incentive Plan (the 2000 Plan) to increase by 2,000,000 shares the number of shares of Common Stock available for issuance under the 2000 Plan from 4,867,675 shares to 6,867,675 shares. The 2000 Plan is designed to attract, motivate and retain employees, directors and consultants of the Company and to further the growth and financial success of the Company by aligning the interests of such persons through ownership with the interests of the Company s stockholders.

The 2000 Plan currently authorizes the grant of stock options and other stock-based awards to officers, employees, non-employee directors and other key persons of the Company and its subsidiaries. Currently, 4,867,675 shares of Common Stock are reserved for issuance pursuant to awards granted under the 2000 Plan. This amount reflects the addition of shares to the 2000 Plan pursuant to an evergreen formula. We discontinued the use of the evergreen formula in 2006. As of March 31, 2006, 354,138 shares remained available for grant under the 2000 Plan. On April 5, 2006, the Board of Directors approved an amendment to the 2000 Plan, subject to stockholder approval, to increase the aggregate number of shares authorized for issuance under the 2000 Plan by 2,000,000 shares to 6,867,675 shares of Common Stock. This amendment was designed to enhance the flexibility of the Compensation Committee in granting stock options and other awards to our officers, employees, non-employee directors and consultants and to ensure that the Company can continue to grant stock options and other awards to such persons at levels determined to be appropriate by the Compensation Committee. We believe that stock options and other stock-based awards are a critical part of the compensation package offered to new, existing and key employees and an important tool in our ability to attract and retain talented personnel. A copy of the amendment to the 2000 Plan and the 2000 Plan are attached as Appendix A to this Proxy Statement and are incorporated herein by reference. The attached copy of the 2000 Plan and the description of the 2000 Plan below include the effect of certain other amendments to the 2000 Plan that the Board approved in April 2006.

Based solely on the closing price of the Company s Common Stock as reported on the Nasdaq National Market on March 31, 2006, the maximum aggregate market value of the 2,000,000 additional shares that could potentially be issued under the 2000 Plan is approximately $8.7 million The shares issued by the Company under the 2000 Plan will be authorized but unissued shares. The shares underlying any awards under the 2000 Plan that are forfeited, canceled, reacquired by the Company, satisfied without the issuance of stock or are terminated (other than by exercise) are added back to the shares available for issuance under the 2000 Plan.

To ensure that certain awards granted under the 2000 Plan, including awards of restricted stock, deferred stock, or performance shares to a Covered Employee (as defined in the Internal Revenue Code of 1986 (the Code)) qualify as performance-based compensation under Section 162(m) of the Code, the 2000 Plan provides that the Compensation Committee may require that the vesting of such awards be conditioned on the satisfaction of performance criteria including (i) the Company s return on equity, assets, capital or investments; (ii) pre-tax or after-tax profit levels of the Company, or any subsidiary, division, operating unit, business segment or combination thereof; (iii) cash flow, funds from operations or similar measures; (iv) total stockholder return; (v) changes in the market price of the Company s Common Stock; (vi) sales or market share; or (vii) earnings per share. The Compensation Committee will select the particular performance criteria within 90 days following the commencement of a performance cycle. Subject to adjustments for stock splits and similar events, the maximum award of restricted stock or deferred stock or performance shares (or combination thereof) granted to any one individual that is intended to qualify as performance-based compensation under Section 162(m) of the Code will not exceed 500,000 shares for any performance cycle, and options or stock appreciation rights with respect to no more than 1,000,000 shares may be granted to any one individual during any calendar year period.

Vote Required

The amendment to the 2000 Plan will be approved upon the affirmative vote of a majority of the votes properly cast for and against such matter. Abstentions are not included in the number of votes cast for and against a matter and therefore have no effect on the vote on such matter. Brokerage firms, bank and other nominees who hold shares on behalf of their clients in street name are not permitted to vote the shares if the clients do not provide instructions (either vote FOR, or vote AGAINST, or ABSTAIN) on this proposal. Accordingly, if a majority of the shares entitled to vote are recorded as broker non-votes on this proposal, the proposal will not be approved even if all of the shares votes are yes votes.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS THAT YOU VOTE *FOR* THE PROPOSAL TO AMEND THE 2000 STOCK OPTION AND INCENTIVE PLAN. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE AMENDMENT OF THE 2000 STOCK AND INCENTIVE PLAN UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.

Summary of 2000 Plan as Amended

The following description of certain features of the 2000 Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2000 Plan that is attached hereto as Appendix A.

The 2000 Plan 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. The 2000 Plan permits us 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. We have currently reserved 3,750,000 shares of our Common Stock for the issuance of awards under the 2000 Plan. The 2000 Plan also included an evergreen provision. Under the evergreen provision, on June 30 and December 31 of each year, an additional number of shares equal to 15% of the annual net increase in the total number of our outstanding shares of Common Stock during the prior six month period were added to the shares available for the issuance of awards under the 2000 Plan. As a result of the evergreen provision, a total of 854,473 additional shares have been added to the 2000 Plan. The Company discontinued the use of the evergreen provision in 2006**.** The Board of Directors voted, subject to stockholder approval, to add an additional 2,000,000 shares to the 2000 Plan in April, 2006. The number of shares of our Common Stock reserved under the plan is subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that are forfeited or canceled from awards under the 2000 Plan will be available for future awards.

Plan Administration. The 2000 Plan is administered by the Compensation Committee of the board of directors. The administrator of the 2000 Plan has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of the 2000 Plan. The administrator may delegate to the Chief Executive Officer the authority to grant awards to employees, other than our executive officers, provided that the administrator fixes the maximum number of shares that may be awarded and provides specific guidelines regarding such awards.

Eligibility and Limitations on Grants. All full-time and part-time officers, employees, non-employee directors and other key persons are eligible to participate in the 2000 Plan, subject to the discretion of the administrator.

Stock Options. The exercise price of stock options awarded under the 2000 Plan may not be less than the fair market value of the Common Stock on the date of the option grant. The term of each stock option may not exceed 10 years from the date of grant. The administrator will determine at what time or times each option may be exercised and, subject to the provisions of the 2000 Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

To qualify as incentive stock options, stock options must meet additional federal tax requirements, including a $100,000 limit on the value of shares subject to incentive stock options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large stockholders.

Automatic Grants to Non-Employee Directors. The 2000 Plan provides for the automatic grant of a non-qualified stock option to purchase 10,000 shares of Common Stock to non-employee directors on the fifth day after being initially elected to the Board. In addition, each non-employee director is automatically granted a non-qualified stock option to purchase 2,500 shares of Common Stock on the fifth day after each annual meeting of stockholders. The exercise price of the automatically granted stock options is equal to 100% of the fair market value of the Common Stock on the date of grant and, unless otherwise provided by the administrator, one-third of any such stock option grant becomes exercisable on the first through third anniversary of the date of grant. The automatically granted stock options expire ten years after the date of grant.

Stock Appreciation Rights. The administrator may award a stock appreciation right either as a freestanding award or in tandem with a stock option. The administrator may award stock appreciation rights subject to such conditions and restrictions as the administrator may determine, provided that (1) upon exercise of a stock appreciation right granted in tandem with an option, the applicable portion of any related option shall be surrendered and (2) stock appreciation rights granted in tandem with options are exercisable at such time or times and to the extent that the related stock options are exercisable.

Restricted Stock. The administrator may award shares to participants subject to such conditions and restrictions as the administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified restricted period.

Deferred Stock. The administrator may award phantom stock units to participants subject to such conditions and restrictions as the Administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified restricted period. At the end of the deferral period, the participants shall be paid, to the extent vested, in shares.

Unrestricted Stock. The administrator may grant shares (at par value or for a purchase price determined by the Administrator) that are free from any restrictions under the 2000 Plan. Unrestricted stock may be issued to participants in recognition of past services or other valid consideration, and may be issued in lieu of cash compensation to be paid to such individuals.

Performance Shares. The administrator may grant performance share awards that entitle the recipient to acquire shares of Common Stock upon the attainment of specified performance goals. The administrator determines the performance goals, performance periods and other terms of any such awards.

Dividend Equivalent Rights. The administrator may award a dividend equivalent right either as a freestanding award or in tandem with another award under the 2000 Plan. The administrator may award dividend equivalent rights subject to such conditions and restrictions as the administrator may determine. Dividend equivalents credited to the holder may be paid currently or may be deemed to be reinvested in additional shares of stock, which may thereafter accrue additional equivalents.

Tax Withholding. Participants in the 2000 Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the administrator, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing the Company to withhold shares to be issued pursuant to an option exercise or other award, or by transferring to the Company shares having a value equal to the amount of such taxes.

Change of Control Provisions. In the event of a merger, sale or dissolution of the Company, or a similar sale event (as defined in the 2000 Plan) and upon a change in control (as defined in the 2000 Plan) all outstanding awards under the 2000 Plan, unless otherwise provided for in a particular award agreement, will terminate unless the parties to the transaction, in their discretion, provide for assumption, continuation or appropriate substitutions or adjustments of such awards. In addition, all stock options and stock appreciation rights will automatically become fully exercisable and all other awards with conditions and restrictions relating solely to the passage of time will become fully vested and non-forfeitable as of the effective time of the sale event, except as may be otherwise provided in the relevant award agreement. In the event that the 2000 Plan will be terminated in connection with a sale event, each holder of an option or a stock appreciation right will be permitted to exercise such award for a specified period prior to the consummation of the sale event. The administrator may also provide for a cash payment with respect to outstanding options and stock appreciation rights in exchange for the cancellation of such awards.

Amendments and Termination. No awards of incentive stock options may be granted under the 2000 Plan after the 10-year anniversary of the date that the 2000 Plan is approved by the Board of Directors. No other awards may be granted under the 2000 Plan after the 10-year anniversary of the date that the 2000 Plan is approved by stockholders. In addition, the Board of Directors may amend or discontinue the 2000 Plan at any time, and the administrator may amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purpose. No such amendment may adversely affect the rights under any outstanding award without the holder s consent. Other than in the event of a necessary adjustment in connection with a change in our stock or a merger or similar transaction, the administrator may not reprice or otherwise reduce the exercise price of outstanding stock options or stock appreciation rights without stockholder approval. Additionally, stockholder approval will be required to amend the 2000 Plan if the administrator determines that this approval is required to ensure that incentive stock options qualify as such under the Code, or that compensation earned under awards qualifies as performance-based compensation under the Code or as required under the applicable securities exchange or market system rules.

Effective Date of Amendment to 2000 Plan. The Board of Directors adopted the amendment to add 2,000,000 shares to the 2000 Plan on April 5, 2006, and the amendment will become effective on the date it is approved by the stockholders. If the amendment is not approved by the stockholders, the 2000 Plan will continue in effect, and awards may be granted thereunder, in accordance with its terms.

New Plan Benefits

No grants have been issued with respect to the additional shares to be reserved for issuance under the 2000 Plan. The number of shares that may be granted to the Company s Chief Executive Officer, executive officers, non-employee directors (other than the automatically granted awards) and non-executive officers under the 2000 Plan is not determinable at this time, as such grants are subject to the discretion of the Compensation Committee. Information about the non-qualified stock options automatically granted to non-employee directors can be found herein under the heading Automatic Grants to Non-Employee Directors. The following table provides information with respect to the number of shares granted under the 2000 Plan for the fiscal year ended December 31, 2005 to our executive officers, non-executive officer directors and employees. Information about the number of shares granted to our Chief Executive Officer and other named executive officers can be found herein under the heading Stock Option Grants in 2005.

Name and Position	Number	Average Exercise Price
All executive officers as a group	400,000	$ 2.98
All non-executive officer directors	67,500	$ 3.00
Employees as a group (excluding executive officers)	216,000	$ 3.35
Totals	683,500	$ 3.06

Equity Compensation Plan Information. The following table sets forth information as of December 31, 2005 concerning the number of shares of common stock issuable under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants And Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
Equity compensation plans approved by security holders (1)	4,281,282	$ 5.29	664,327(2)
Equity compensation plans not approved by security holders			
Total	4,281,282	$ 5.29	664,327

(1) Consists of the Harvard Apparatus, Inc. 1996 Stock Option and Grant Plan (the 1996 Stock Plan); the 2000 Plan and the Harvard Bioscience, Inc. Employee Stock Purchase Plan (the Stock Purchase Plan).

(2) Represents 354,138 shares available for future issuance under the 2000 Plan and 310,189 shares available for future issuance under the Stock Purchase Plan. Under the 2000 Plan, prior to 2006, the number of shares available for issuance was automatically increased each June 30 and December 31 in an amount equal to 15% of the common stock issued in the six-month periods then ended. As of December 31, 2005, the shares reserved for issuance under the 2000 Plan included 854,473 shares added pursuant to this provision. In 2006, the Company discontinued the use of the provision providing for these automatic updates.

Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the 2000 Plan. It does not describe all federal tax consequences under the 2000 Plan, nor does it describe state or local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (1) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (2) there will be no deduction for the Company for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a disqualifying disposition), generally (a) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares at exercise (or, if less, the amount realized on a sale of such shares) over the option price thereof, and (b) the Company will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above (e.g., if the holding periods described above are not satisfied), the option is treated as a non-qualified option. In addition, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Options. No income is realized by the optionee at the time the option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and the Company receives a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

Parachute Payments

The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on the Company s Deductions

As a result of Section 162(m) of the Code, the Company s deduction for certain awards under the 2000 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of $1 million a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code). The 2000 Plan is structured to allow grants to qualify as performance-based compensation.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors of the Company held ten meetings during the year ended December 31, 2005. During the year ended December 31, 2005 each of the Directors attended at least 75% of the total number of meetings of the Board of Directors (held during the period for which he has been a director) and of the committees of which he was a member (during the periods that he served). The Board of Directors encourages Directors to attend in person the Annual Meeting, or Special Meeting in Lieu thereof, of Stockholders of the Company or, if unable to attend in person, to participate by other means, if practicable. In recognition of this policy, the Board of Directors typically schedules a regular meeting of the Board of Directors to be held on the date of, and immediately following, the Annual Meeting of Stockholders. Five of the six Directors in office at the time attended, either in person or by telephone, the 2005 Annual Meeting of Stockholders, which was held on May 19, 2005.

The Board of Directors has established an Audit Committee (the Audit Committee), a Compensation Committee (the Compensation Committee), and a Governance Committee (the Governance Committee).

Audit Committee

The Audit Committee operates under a written charter that sets forth its duties and responsibilities. In February 2004, the Board of Directors adopted a revised Audit Committee Charter to comply with the recently adopted changes to the applicable Nasdaq listing requirements. The purposes of the Audit Committee are to oversee the accounting and financial reporting processes of the Company and the audits of the Company s financial statements; take, or recommend that the Board of Directors take, appropriate action to oversee the qualifications, independence and performance of the Company s independent registered public accounting firm; and prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company s annual proxy statement.

In accordance with its charter, the Audit Committee, among other things, approves the engagement of the independent registered public accounting firm, reviews the plans and results of the audit engagement with the independent registered public accounting firm, approves professional services provided by the independent auditors, reviews the independence of the independent registered public accounting firm, considers the range of audit and non-audit fees, reviews the adequacy of the Company s internal control over financial reporting and performs such other oversight functions as may be requested from time to time by the Board of Directors.

The Audit Committee currently consists of Messrs. Harte, Kennedy and Uveges, and Mr. Kennedy serves as the Chairman. The Board of Directors has determined that Messrs. Harte, Kennedy and Uveges are independent as such term is currently defined in the Nasdaq listing standards, meet the criteria for independence set forth under the rules of the Securities and Exchange Commission, and are able to read and understand fundamental financial statements. The Board of Directors has also determined that each of Messrs. Harte, Kennedy and Uveges qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission. The Audit Committee met ten times during the year ended December 31, 2005.

The Audit Committee Charter is available on the Corporate Governance page in the Investor Relations section of the Company s website at www.harvardbioscience.com. Please note that the information contained on the website is not incorporated by reference in, or considered to be a part of, this Proxy Statement.

Compensation Committee

In December 2004, the Board of Directors adopted a compensation committee charter that sets forth the duties and responsibilities of the Compensation Committee. The Compensation Committee reviews and recommends the compensation arrangements for the Company s senior executive officers, determines the options or stock to be granted to eligible persons under the Company s 2000 Stock Option and Incentive Plan and takes such other action as may be required in connection with the Company s compensation and incentive plans.

The Compensation Committee currently consists of Messrs. Dishman, Kennedy and Lewis, and Mr. Dishman serves as the Chairman. The Board of Directors has determined that Messrs. Dishman, Kennedy and Lewis are independent as such term is currently defined in the Nasdaq listing standards. The Compensation Committee met two times during the year ended December 31, 2005.

The Compensation Committee Charter is available on the Corporate Governance page in the Investor Relations section of the Company s website at www.harvardbioscience.com. Please note that the information contained on the website is not incorporated by reference in, or considered to be a part of, this Proxy Statement.

Governance Committee

In February 2006, the Board of Directors renamed its Nominating Committee as the Governance Committee and adopted an amended charter to govern the Governance Committee. In accordance with its charter, the Governance Committee is responsible for identifying individuals qualified to become board members, consistent with criteria recommended by the Governance Committee and approved by the Board, and recommending that the Board select the director nominees for election at each annual meeting of stockholders. The Governance Committee is also responsible for assisting the Board with such corporate governance matters as the Board may request.

In identifying and evaluating nominees for the Board, the Governance Committee may solicit recommendations from any or all of the following sources: non-management directors, the Chief Executive Officer, other executive officers, third-party search firms or any other source it deems appropriate. In addition, the Governance Committee has established a policy that it will review and consider any Director candidates who have been recommended by securityholders in compliance with certain procedures established by the Governance Committee. The procedures to be followed by securityholders in submitting such recommendations are described in the section entitled Submission of Securityholders Recommendations for Director Candidates beginning on page 27 of this Proxy Statement. The Governance Committee will review and evaluate the qualifications of any such proposed Director candidate, and conduct inquiries it deems appropriate.

The Governance Committee will evaluate all such proposed Director candidates, including those recommended by securityholders in compliance with the procedures established by the Governance Committee, in the same manner, with no regard to the source of the initial recommendation of such proposed Director candidate. When considering a potential candidate for membership on the Board of Directors, the Governance Committee may consider, in addition to the minimum qualifications and other criteria for Board membership approved by the Board of Directors, all facts and circumstances that the Governance Committee deems appropriate or advisable, including, among other things, the skills of the proposed Director candidate, his or her availability, depth and breadth of business experience or other background characteristics, his or her independence and the needs of the Board of Directors. At a minimum, each nominee must have high personal and professional integrity, have demonstrated ability and judgment, and be effective, in conjunction with the other Directors and nominees, in collectively serving the long-term interests of the stockholders. In addition, the Governance Committee will recommend that the Board select persons for nomination to help ensure that a majority of the Board shall be independent in accordance with the Nasdaq listing standards and each of its Audit, Compensation and Governance Committees shall be comprised entirely of independent directors; provided, however, in accordance with the Nasdaq listing standards, under exceptional and limited circumstances, if a committee has at least three members, the Board may appoint one individual to such committee who does not satisfy the independence standards. The Governance Committee also may consider whether the nominee has direct experience in the biotechnology, pharmaceutical and/or life sciences industries or in the markets in which the Company operates and whether the nominee, if elected, assists in achieving a mix of Board members that represents a diversity of background and experience.

The current members of the Governance Committee are Messrs. Dishman, Harte and Lewis, and Mr. Lewis is the Chairman. The Board of Directors has determined that Messrs. Dishman, Harte and Lewis are independent as such term is currently defined in the Nasdaq listing standards. The Governance Committee replaces the Nominating Committee, which met one time during the year ended December 31, 2005.

The Governance Committee Charter is available on the Corporate Governance page in the Investor Relations section of the Company s website at www.harvardbioscience.com. Please note that the information contained on the website is not incorporated by reference in, or considered to be a part of, this Proxy Statement.

REPORT OF THE AUDIT COMMITTEE

In accordance with the written Audit Committee Charter adopted by the Board of Directors, which was revised effective February 11, 2004 to comply with the recently adopted Nasdaq listing standards, the Audit Committee, among other things, oversees the accounting and financial reporting processes of Harvard Bioscience, Inc., the audits of the Company s financial statements, and the qualifications, independence and performance of the Company s independent registered public accounting firm.

The Audit Committee has discussed and reviewed with KPMG LLP, the Company s independent registered public accounting firm, all communications required by the standards of the Public Company Oversight Board (United States), including those described in Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended by Statement on Auditing Standards No. 90, Audit Committee Communications, and, with and without management present, discussed and reviewed the results of the independent registered public accounting firm s examination of the financial statements. The Audit Committee obtained from the independent registered public accounting firm the written disclosures and letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and discussed with KPMG LLP its independence from Harvard Bioscience, Inc. and its management.

The Audit Committee reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2005, with management and the independent registered public accounting firm. Management has the responsibility for the preparation of the Company s financial statements and the independent registered public accounting firm has the responsibility for the examination of those statements, to perform an independent audit of those financial statements in accordance with the standards of the Public Company Oversight Board (United States) and to issue a report thereon.

On the basis of the above-mentioned reviews and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Harvard Bioscience Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 which has been filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

John F. Kennedy, Chairman

Neal J. Harte

George Uveges

REPORT OF THE COMPENSATION COMMITTEE

In accordance with the written Compensation Committee Charter adopted by the Board of Directors in December 2004, the Compensation Committee, among other things, reviews and recommends the compensation arrangements for the Company s senior executive officers, determines the options or stock to be granted to eligible persons under the Company s 2000 Stock Option and Incentive Plan and takes other such action as may be required in connection with the Company s compensation and incentive plans. The Compensation Committee is responsible for the oversight of all of the Company s compensation policies and practices including benefits and perquisites. Compensation is defined as base salary, all forms of incentive pay, and stock option and restricted stock grants or any other plans directly or indirectly related to the Company s stock. Members of the Compensation Committee are appointed annually by the Board of Directors, at the recommendation of the Governance Committee, at the first meeting of the Board of Directors following the annual meeting of stockholders. The Compensation Committee consists solely of Directors who are independent as such term is currently defined in the applicable Nasdaq listing standards. The composition of the Compensation Committee also reflects the requirements of Rule 16b-3 under the Securities Exchange Act of 1934 as in effect from time to time. The Compensation Committee met on May 25, 2005 to approve the compensation and incentive plan for 2005 for the Chief Executive Officer, President and Chief Financial Officer.

Compensation Philosophy. The objective of the Company s Compensation Committee is to provide compensation that will attract and retain executives, motivate each executive toward the achievement of the Company s short and long-term financial goals and objectives and recognize individual contributions as well as overall business results. In order to achieve this objective, the primary focus of the Compensation Committee has been on the competitiveness of each of the key elements of executive compensation (base salary, bonus and stock and option grants) and the compensation package as a whole. In general, the Compensation Committee believes that total compensation should reflect both the relative performance of the Company among its peer group of public companies of similar size as well as the Company s performance as measured against its own financial objectives, and the longer-term creation of shareholder value.

Base Salary and Bonus. Base compensation is set to be competitive with the peer group of the regional economy for public companies of similar size, taking into account historical levels and the level of responsibility, breadth of knowledge and the past performance of the executive. The relative importance of these factors varies, depending on the particular individual being reviewed. The Compensation Committee establishes the base salary of the Chief Executive Officer and reviews his recommendation and approves base salary with respect to the other senior executives. The cash bonus portion of each executive s compensation is determined based upon the achievement of certain individual and Company goals and other strategic accomplishments during the year. For the year ended December 31, 2005, the Company s financial objectives were based on the achievement of a target Non-GAAP adjusted earnings per diluted share, growth in operating profit and the continued revenue growth of the Company.

Stock Options. The Compensation Committee believes that the equity ownership position of the Chief Executive Officer and the other members of the senior executive staff is a significant factor in aligning the long-term interests of management and the stockholders. To ensure that high levels of performance occur over the long term, stock options granted to executives generally vest over a four-year period and expire ten years from the date of grant. In determining whether to grant stock options to executive officers, the Compensation Committee evaluates each officer s performance by examining criteria similar to that involved in the determination of base salary and bonuses. The Compensation Committee may also grant stock options for executive retention purposes.

Compensation of the Chief Executive Officer. The Company s financial performance is a crucial determinant in the Chief Executive Officer s overall compensation package. The Compensation Committee reviewed information regarding the compensation paid to chief executive officers of comparable companies, and evaluated achievement of corporate, individual and organizational objectives for the year. Mr. Graziano s base salary for the year ended December 31, 2005 was set at $455,000. Based upon the new self-funding bonus plan put in place for 2005, Mr. Graziano did not receive a bonus for the year ended December 31, 2005. Mr. Graziano was granted options to purchase 125,000 shares of Common Stock in the year ended December 31, 2005.

Deductibility of Executive Compensation. The Internal Revenue Code of 1986, as amended (the Code), limits the federal income tax deductibility of compensation paid to the Company s Chief Executive Officer and to each of the other four most highly compensated executive officers. For this purpose, compensation can include, in addition to cash compensation, the difference between the exercise price of stock options and the value of the underlying stock on the date of exercise. The Company may deduct compensation with respect to any of these individuals only to the extent that during any year such compensation does not exceed $1 million or meets certain other conditions (such as stockholder approval). The Compensation Committee does not expect cash compensation for the year ending December 31, 2005 to the Chief Executive Officer or any other executive officer to be in excess of $1 million. If the deductibility of executive compensation becomes a significant issue, the Company s compensation plans and policy will be modified to maximize deductibility if the Company and the Committee determine that such action is in the best interests of the Company.

Submitted by the Compensation Committee

Robert Dishman, Chairman

John F. Kennedy

Earl R. Lewis

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

DIRECTOR COMPENSATION

Directors who are also employees of the Company receive no additional compensation for service as a Director. Non-employee Directors receive the compensation described below.

In May 2005, the Compensation Committee recommended a change in non-employee Director compensation. Effective immediately following the 2005 annual meeting of stockholders, each non-employee Director is entitled to receive a non-qualified stock option to purchase 25,000 shares of the Company s common stock vesting annually over three years and granted on the fifth business day following his or her initial election to the Board and an annual retainer consisting of (a) $12,000 paid in four equal quarterly installments and (b) a non-qualified stock option to purchase 2,500 shares of the Company s common stock vesting annually over three years and granted on the fifth business day following each annual meeting of stockholders.

Each non-employee Director member of the Audit Committee is entitled to receive an additional annual retainer of $6,000 paid in four equal quarterly installments and an option to purchase 2,500 shares of the Company s common stock vesting annually over three years and granted on the fifth business day following each annual meeting of stockholders.

Each non-employee Director member of the Compensation Committee is entitled to receive an additional annual retainer of $2,000 paid in four equal quarterly installments.

In February 2006, the Compensation Committee recommended a change in compensation for members of the Governance Committee and for Committee Chairs. Effective for 2006, each non-employee member of the Governance Committee is entitled to receive an additional annual retainer of $2,000 paid in four equal quarterly installments and each Committee Chairman is entitled to receive an additional retainer of $2,000 paid in four equal quarterly installments.

In addition, non-employee Directors are reimbursed for their expenses incurred in connection with attending Board and committee meetings.

Prior to the changes made in non-employee Director compensation in February 2006 and May 2005, the Company reimbursed non-employee Directors for their expenses incurred in connection with attending Board and committee meetings and did not pay cash compensation for their services as Directors. Directors also participated in the 2000 Stock Plan and each non-employee Director was eligible to receive a one-time option grant of 10,000 shares vesting annually over three years upon initial election to the Board of Directors and an annual option grant of 2,500 shares vesting annually over three years following each annual meeting of stockholders.

Non-Employee Director Compensation Table. The following table presents the compensation provided by the Company to the non-employee directors who served during the year ended December 31, 2005.

	Annual Retainer				Stock Option Grants
Name	**Annual**	**Audit Committee**	**Compensation Committee**	**Total**	