BRUKER BIOSCIENCES CORP
Form 10-Q
November 09, 2006

# U.S. SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x** **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

**o** **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM TO**

**Commission File Number 000-30833**

# Bruker BioSciences Corporation

(Exact name of registrant as specified in its charter)

| **DELAWARE** | **04-3110160** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

**40 Manning Park**

**Billerica, MA 01821**

(Address of principal executive offices)

**(978) 663-3660**

(Registrant s telephone number, including area code)

Indicate by checkmark 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. Yes x No o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by checkmark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

As of November 7, 2006, there were 102,225,996 shares of the Registrant s common stock outstanding.

Bruker BioSciences Corporation

Form 10-Q

For the Quarter Ended September 30, 2006

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**PART I FINANCIAL INFORMATION**

**ITEM 1: Financial Statements**

Bruker BioSciences Corporation

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

| | **September 30, 2006 (Unaudited)** | **December 31, 2005** |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 44,151 | $ 62,632 |
| Short-term investments | | 46,419 |
| Accounts receivable, net | 71,912 | 67,913 |
| Due from affiliated companies | 4,624 | 6,464 |
| Inventories | 133,347 | 117,655 |
| Other current assets | 17,428 | 13,721 |
| Total current assets | 271,462 | 314,804 |
| Property, plant and equipment, net | 87,908 | 85,313 |
| Intangibles and other assets | 49,997 | 22,978 |
| Total assets | $ 409,367 | $ 423,095 |
| | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Short-term borrowings | $ 29,377 | $ 9,564 |
| Accounts payable | 21,112 | 17,211 |
| Due to affiliated companies | 7,746 | 6,175 |
| Customer advances | 42,403 | 38,175 |
| Other current liabilities | 76,948 | 76,884 |
| Total current liabilities | 177,586 | 148,009 |
| | | |
| Long-term debt | 27,022 | 25,070 |
| Other long-term liabilities | 28,288 | 20,426 |
| Commitments and contingencies (Note 13) | | |
| Preferred stock, $0.01 par value, 5,000,000 shares authorized, none issued or outstanding at September 30, 2006 or December 31, 2005 | | |
| Common stock, $0.01 par value, 200,000,000 and 150,000,000 shares authorized, 102,225,996 and 100,854,320 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively | 1,017 | 898 |
| Other stockholders equity | 175,454 | 228,692 |
| Total shareholders equity | 176,471 | 229,590 |
| Total liabilities and shareholders equity | $ 409,367 | $ 423,095 |

*See the accompanying notes to financial statements.*

Bruker BioSciences Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Product revenue | $ 91,928 | $ 75,053 | $ 264,104 | $ 233,310 |
| Service revenue | 12,625 | 9,877 | 34,895 | 30,116 |
| Other revenue | 317 | 954 | 1,210 | 2,050 |
| Total revenue | 104,870 | 85,884 | 300,209 | 265,476 |
| | | | | |
| Cost of product revenue | 50,659 | 41,151 | 143,414 | 127,657 |
| Cost of service revenue | 8,028 | 6,024 | 20,633 | 19,214 |
| Total cost of revenue | 58,687 | 47,175 | 164,047 | 146,871 |
| Gross profit | 46,183 | 38,709 | 136,162 | 118,605 |
| | | | | |
| Operating expenses: | | | | |
| Sales and marketing | 19,063 | 15,860 | 58,795 | 50,436 |
| General and administrative | 7,239 | 6,385 | 20,319 | 18,889 |
| Research and development | 11,936 | 11,529 | 36,495 | 36,554 |
| Acquisition related charges | 961 | | 5,829 | |
| Total operating expenses | 39,199 | 33,774 | 121,438 | 105,879 |
| Operating income | 6,984 | 4,935 | 14,724 | 12,726 |
| | | | | |
| Interest and other income (expense), net | (491) | 213 | 3,522 | (282) |
| Income before income tax provision and minority interest in consolidated subsidiaries | 6,493 | 5,148 | 18,246 | 12,444 |
| Income tax provision | 3,535 | 3,036 | 9,398 | 7,466 |
| Income before minority interest in consolidated subsidiaries | 2,958 | 2,112 | 8,848 | 4,978 |
| Minority interest in consolidated subsidiaries | (18) | 28 | 75 | 131 |
| Net income | $ 2,976 | $ 2,084 | $ 8,773 | $ 4,847 |
| Net income per common share - basic and diluted | $ 0.03 | $ 0.02 | $ 0.09 | $ 0.05 |
| Weighted average common shares outstanding: | | | | |
| Basic | 102,038 | 100,851 | 101,635 | 100,848 |
| Diluted | 102,704 | 101,044 | 102,090 | 100,995 |

*See the accompanying notes to financial statements.*

Bruker BioSciences Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

| | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|
| **Operating activities:** | | |
| Net cash provided by operating activities | $ 17,835 | $ 29,885 |
| | | |
| **Investing activities:** | | |
| Purchases of property and equipment | (5,037) | (3,614) |
| Sales of short-term investments | 46,460 | 420 |
| Acquisitions, net of cash acquired | (27,642) | |
| Changes in restricted cash | (76) | (142) |
| Net cash provided by (used in) investing activities | 13,705 | (3,336) |
| | | |
| **Financing activities:** | | |
| Proceeds from (payments of) short-term borrowings, net | 19,521 | (2,169) |
| Proceeds from (payments of) long-term debt, net | 899 | (5,023) |
| Proceeds from issuance of common stock | 418 | 213 |
| Payments to shareholders | (74,021) | |
| Net cash used in financing activities | (53,183) | (6,979) |
| | | |
| Effect of exchange rate changes on cash | 3,162 | (3,361) |
| Net change in cash and cash equivalents | (18,481) | 16,209 |
| Cash and cash equivalents at beginning of period | 62,632 | 41,421 |
| Cash and cash equivalents at end of period | $ 44,151 | $ 57,630 |
| | | |
| **Non-Cash Financing Activities** | | |
| Issuance of common stock related to acquisitions | 58,463 | |

*See the accompanying notes to financial statements.*

Bruker BioSciences Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

**1. Description of Business and Basis of Presentation**

Bruker BioSciences Corporation and its wholly-owned subsidiaries (the Company ) design, manufacture, service and market proprietary life science and materials research systems based on mass spectrometry core technology platforms, X-ray technologies, optical emission spectroscopy (OES), and infrared and Raman molecular spectroscopy technology. The Company also sells a broad range of field analytical systems for chemical, biological, radiological and nuclear (CBRN) detection. The Company maintains major technical and manufacturing centers in Europe, North America and Japan and sales offices throughout the world. The Company s diverse customer base includes pharmaceutical and biotechnology companies, advanced materials and semiconductor industries, various other industrial companies, academic institutions, medical research institutions and government agencies.

The financial statements represent the consolidated accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements as of and for the three and nine months ended September 30, 2006 and 2005 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Article 10 of Regulation S-X. Accordingly, the financial information presented herein does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of the results to be expected for the full year.

On July 1, 2006, the Company completed its acquisition of Bruker Optics, Inc. ( Bruker Optics ). Both the Company and Bruker Optics were majority owned by five affiliated stockholders prior to the acquisition. As a result, the acquisition of Bruker Optics by the Company is considered a business combination of companies under common control, and has been accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquisition of Bruker Optics, as it relates to the portion under common ownership (approximately 96%), has been accounted for at historical carrying values. The portion not under the common ownership of the five affiliated stockholders (approximately 4%) has been accounted for using the purchase method of accounting (at fair value) on a pro rata basis. Any excess purchase price of the interest not under common control over the fair value of the related net assets acquired has been accounted for as goodwill and intangible assets. Because this acquisition was essentially considered a pooling of interests, all one-time transaction costs have been expensed as incurred rather than being added to goodwill. During the nine months ended September 30, 2006, the Company incurred and expensed acquisition related charges totaling $5.8 million, which consisted of investment banking, legal and accounting fees, compensation earned by the special committee of the Company s Board of Directors and antitrust regulation filing fees. The consolidated balance sheets, statements of operations, statements of cash flows and notes to the financial statements presented in this Quarterly Report on Form 10-Q includes Bruker Optics because the acquisition was completed on July 1, 2006 and under pooling accounting all historical financial statements have been presented as if the companies had always been combined.

As a result of the Bruker Optics acquisition, management is currently reevaluating the internal reporting structure which may require a change to our segment reporting. This evaluation is expected to be completed in the fourth quarter of 2006. The Company currently reports financial results on the basis of the following three business segments:

1. *Bruker Daltonics Inc.* ( Bruker Daltonics ) is a leading developer and provider of innovative life science tools based on mass spectrometry and also develops and provides a broad range of field analytical systems for CBRN detection.

2. *Bruker AXS Inc.* ( Bruker AXS ) is a leading developer and provider of life science and advanced materials research tools for advanced X-ray and spark-OES instrumentation used in non-destructive molecular and elemental analysis in academic, research and industrial applications.

3. *Bruker Optics* is a leading developer, manufacturer and provider of research, analytical and process analysis instruments and solutions based on infrared and Raman molecular spectroscopy technology.

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**2. Acquisition**

On July 1, 2006, the Company completed the acquisition of all of the outstanding stock of Bruker Optics in accordance with the terms of the stock purchase agreement dated as of April 17, 2006. The acquisition of Bruker Optics represented a business combination of companies under common control due to the majority ownership of both companies by five related individuals as an affiliated shareholder group. As a result, the acquisition, as it related to the shares owned by these affiliated shareholders (approximately 96%), was accounted for in a manner similar to a pooling-of-interest, or at historical carrying value. The acquisition of the shares of the non-affiliated shareholders (approximately 4%) was accounted for using the purchase method of accounting, or at fair value, in a manner similar to the acquisition of a minority interest. The excess purchase price of the interest not under common control over the fair value of the related net assets was recorded as intangible assets and goodwill.

Upon completion of the acquisition, the Company paid an aggregate of $135 million of consideration to the Bruker Optics stockholders and holders of Bruker Optics stock options, of which approximately $79 million was paid in cash and approximately $56 million was paid in restricted unregistered shares of Company common stock. $13.5 million of the cash payment to the Bruker Optics stockholders will be held in escrow until the later of (x) the thirtieth day following receipt by the Company of Bruker Optics audited financial statements for the fiscal year ended December 31, 2006, or (y) the resolution of any indemnification claim pending as of the receipt of such audited financial statements. In addition, $1 million of the cash payment to the Bruker Optics stockholders will be held in escrow until the later of (x) the twentieth day after the Company delivers a closing balance sheet to the Bruker Optics stockholders, which balance sheet is to be delivered within 90 days of the closing of the acquisition, or (y) the resolution of any objections to the balance sheet.

The fair value of the consideration paid for the acquisition of the minority interest was approximately $5.1 million, including cash of $4.7 million and common stock valued at $0.4 million. The value of the shares of common stock issued to the non-affiliated shareholder in connection with the merger was determined using a trailing average of the closing market prices of Bruker BioScience s stock for a period of ten consecutive trading days ending three days prior to the closing of the acquisition, which occurred on July 1, 2006.

The Company is currently in the process of completing the valuation of the fair value of cetain assets acquired. All information presented below is subject to change upon completion of the valuation in the fourth quarter of 2006. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition of the minority interest (in thousands):

| | |
|---|---|
| Current assets | $ 42,387 |
| Property, plant and equipment | 13,174 |
| Intangible assets | 20,047 |
| Other assets | 72 |
| Total assets | 75,680 |
| Current liabilities | 34,485 |
| Long-term debt | 3,463 |
| Other liabilities | 2,075 |
| Total liabilities assumed | 40,023 |
| Net assets | 35,657 |
| Minority interest percentage | 4.1 % |
| Net assets acquired | 1,462 |
| Goodwill | 3,680 |
| Total purchase price | $ 5,142 |

The purchase price for the 4.1% minority interest acquired was allocated to the net assets acquired on a pro rata basis in accordance with SFAS No. 141, *Business Combinations*. Accordingly, estimated acquisition related intangibles total $0.8 million and are being amortized over fours years. In addition, approximately $5.3 million of acquired intangible assets were assigned to in-process research and development projects of which the 4.1% minority interest, or approximately $0.2 million, was written off at the date of acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. The projects that were estimated to qualify as acquired in-process research and development projects were those that had not yet reached technology feasibility and for which no future alternative uses existed. The value assigned to the in-process research and development projects was

determined using estimates based on historical acquisitions since the valuation was not complete as of September 30, 2006.

The $3.7 million of goodwill acquired from Bruker Optics in connection with the merger was assigned to the Company s Bruker Optics subsidiary, currently a reportable operating segment, and will not be deductible for tax purposes since the merger was a tax-free merger.

The incremental effect, which represents the contribution from Bruker Optics, of the change in reporting entity for all periods presented is as follows (in thousands except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Income before income tax provision and minority interest in consolidatd subsidiaries | $ 5,070 | $ 1,645 | $ 12,405 | $ 5,022 |
| Net income | 3,350 | 1,007 | 7,715 | 3,041 |
| Net income per share - basic and diluted | $ 0.03 | $ 0.01 | $ 0.08 | $ 0.03 |

On July 18, 2006, the Company acquired all of the capital stock of KeyMaster Technologies, Inc. ( KeyMaster ), a Delaware corporation located in Kennewick, Washington. In accordance with the stock purchase agreement, the Company paid an aggregate of $10 million of cash consideration to the stockholders of KeyMaster, of which $1 million will be held in escrow until the later of (x) July 18, 2007, or (y) the resolution of any indemnification claim pending as July 18, 2007. The results of KeyMaster have been included in the Bruker AXS segment from the date of acquisition. Pro forma information to reflect the KeyMaster acquisition has not been presented as the impact on revenues and net income, and net income per common share would not have been material.

On September 6, 2006, the Company acquired all of the capital stock of Quantron GmbH, a spark-OES company based in Kleve, Germany ( Quantron ). In accordance with the stock purchase agreement, at the closing, the Company paid an aggregate of approximately $6.3 million of consideration to the Sellers, of which approximately $5.0 million was paid in cash and approximately $1.3 million was paid in the issuance of an aggregate of 202,223 restricted unregistered shares of the Company s common stock, par value $0.01 per share, to Quantron s two largest shareholders. Pursuant to the earn-out provisions of the stock purchase agreement, up to an aggregate of $4.7 million of additional cash consideration may be paid through 2009 based on future performance of Quantron. The Company is currently evaluating whether the additional payments will be treated as additional purchase price or compensation. The results of Quantron have been included in the Bruker AXS segment from the date of acquisition. Pro forma information to reflect the Quantron acquisition has not been presented as the impact on revenues and net income, and net income per common share would not have been material.

On January 17, 2006, the Company acquired Socabim SAS, a privately-held company focused on advanced X-ray analysis software for materials research based in Paris, France. The initial aggregate purchase price of approximately $8.8 million was paid through the issuance of 267,302 restricted shares of common stock of the Company to Socabim s two largest shareholders, which had an aggregate value of approximately $1.3 million as of the date of issuance, and an aggregate of $7.5 million was paid to all of the Socabim selling shareholders from cash on hand. Additional cash consideration, in the amount of approximately $1.5 million in total, may be paid through 2009 based on the future performance of Socabim, which will be accounted for as additional purchase price. Prior to the acquisition, the Company licensed from Socabim software that is used in various Bruker AXS systems. Bruker AXS was Socabim s principal customer before the acquisition which required the Company to evaluate the preexisting relationship with Socabim in accordance with Emerging Issues Task Force No. 04-1, Accounting for Preexisting Relationships between the Parties to a Business Combination. EITF 04-1 requires an analysis to be performed to determine whether there has been an effective settlement of a preexisting executory contract that was either favorable or unfavorable to the acquirer. To the extent there was an executory contract that was either favorable or unfavorable to the acquirer, a gain or loss is recognized. Management determined there was no settlement of a preexisting executory contract in the acquisition of Socabim and, accordingly, no gain or loss was recognized. The results of Socabim have been included in the Bruker AXS segment from the date of acquisition. Pro forma information to reflect the Socabim acquisition has not been presented as the impact on revenues and net income, and net income per common share would not have been material.

**3. Equity-Based Compensation**

In 2000, the Board of Directors adopted and the stockholders approved the 2000 Stock Option Plan. The 2000 Stock Option Plan provided for the issuance of up to 2,200,000 shares of common stock in connection with awards under the Plan. The 2000 Stock Option Plan allows a committee of the Board of Directors to grant incentive stock options, non-qualified

stock options, stock appreciation rights and stock awards (including the use of restricted stock and phantom shares). The committee has the authority to determine which employees will receive the awards, the amount of the awards and other terms and conditions of the award. Awards granted by the committee typically vest over a period of three-to-five years.

On July 1, 2003, the Company s stockholders approved an amendment and restatement of the 2000 Stock Option Plan to change the plan name and increase the number of shares available for issuance. The name of the amended plan is the Bruker BioSciences Corporation Amended and Restated 2000 Stock Option Plan. The amendment authorized 4,132,000 additional shares of common stock of the Company issuable pursuant to the plan. On June 29, 2006, the Company s stockholders approved an increase in the number of shares available for issuance under the plan from 6,320,000 shares to 8,000,000 shares, an increase of 1,680,000 shares.

The total number of shares issuable under the plan is 8,000,000, all of which have been registered on Form S-8 (Reg. No. 333-47836, 333-107924 and 333-137090).

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment.* This standard revised the measurement, valuation and recognition of financial accounting and reporting standards for equity-based compensation plans contained in SFAS No. 123, *Accounting for Stock Based Compensation*. The new standard requires companies to expense the value of employee stock options and similar equity-based compensation awards based on fair value recognition provisions determined on the date of grant.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which required the application of the accounting standard on January 1, 2006, the effective date of the standard for the Company. In accordance with the modified prospective transition method, the Company s consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). The Company will continue to include tabular, pro forma disclosures in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure,* for all periods prior to January 1, 2006.

As of September 30, 2006, the Company s primary types of share-based compensation were stock options and restricted stock. The Company recorded stock-based compensation expense for the three and nine months ended September 30, 2006 as follows (in thousands):

| | **Three months ended September 30, 2006** | **Nine months ended September 30, 2006** |
|---|---|---|
| Stock options | $ 277 | $ 736 |
| Restricted stock | 155 | 229 |
| Total stock-based compensation, pre-tax | 432 | 965 |
| Tax benefit | 121 | 266 |
| Total stock-based compensation, net of tax | $ 311 | $ 699 |

Restricted Stock

Restricted shares of the Company s common stock are periodically awarded to executive officers, directors and certain key employees of the Company subject to a service restriction which expires ratably over a period of five years. The restricted shares of common stock may not be sold or transferred during the restriction period. Stock compensation for restricted stock is recorded based on the stock price on the grant date and charged to expense ratably through the restriction period. The following table summarizes information about restricted stock activity during the nine months ended September 30, 2006:

| | Shares Subject to Restriction | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2005 | | $ |
| Granted | 630,550 | 5.23 |
| Vested | | |
| Forfeited | (4,700 ) | 5.00 |
| Outstanding at September 30, 2006 | 625,850 | $ 5.23 |

Unrecognized pretax expense of $2.8 million related to restricted stock awards is expected to be recognized over the weighted average remaining service period of 4.5 years for awards outstanding at September 30, 2006.

Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions regarding volatility, expected term, dividend yield and risk-free interest rate are required for the Black-Scholes model. Volatility and expected term assumptions are based on the Company s historical experience. The risk-free interest rate is based on a U.S. treasury note with a maturity similar to the option award s expected life. The assumptions for volatility, expected life, dividend yield and risk-free interest rate are presented in the table below:

| | 2006 |
|---|---|
| Risk-free interest rate | 3.80 % |
| Expected life | 5 years |
| Volatility | 105.0 % |
| Expected dividend yield | 0 % |

All stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Stock option activity for the nine months ended September 30, 2006 was as follows:

| | Shares Subject to Options | Weighted Average Option Price | Weighted Average Remaining Contractual Term (Yrs) | Aggregate Intrinsic Value ($ s in 000 s) |
|---|---|---|---|---|
| Outstanding at December 31, 2005 | 3,576,868 | $ 6.43 | | |
| Granted | 695,250 | 5.23 | | |
| Exercised | (77,354 ) | 4.05 | | |
| Forfeited | (190,047 ) | 7.05 | | |
| Outstanding at September 30, 2006 | 4,004,717 | $ 6.23 | 5.1 | $ 7,310 |
| Exercisable at September 30, 2006 | 3,038,869 | $ 6.72 | 4.8 | $ 5,089 |

The following table summarizes information about stock options outstanding and exercisable at September 30, 2006:

| | Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Number Outstanding** | **Weighted Average Remaining Contractual Term (Yrs)** | **Weighted Average Exercise Price** | **Aggregate Intrinsic Value ($ s in 000 s)** | **Number Exercisable** | **Weighted Average Exercise Price** | **Aggregate Intrinsic Value ($ s in 000 s)** |
| $2.12 to $4.00 | 857,959 | 5.0 | $ 3.20 | $ 3,265 | 599,637 | $ 3.14 | $ 2,319 |
| $4.01 to $6.00 | 2,020,204 | 5.5 | 5.14 | 3,769 | 1,312,678 | 5.11 | 2,494 |
| $6.01 to $10.00 | 530,455 | 4.5 | 6.69 | 276 | 530,455 | 6.69 | 276 |
| $10.01 to $13.00 | 227,849 | 5.4 | 11.05 | | 227,849 | 11.05 | |
| $13.01 and above | 368,250 | 4.6 | 15.64 | | 368,250 | 15.64 | |
| | 4,004,717 | 5.1 | $ 6.23 | $ 7,310 | 3,038,869 | $ 6.72 | $ 5,089 |

The intrinsic values above are based on the Company s closing stock price of $7.01 on September 29, 2006. The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2006 was $5.23. Unrecognized pretax expense of $2.8 million related to stock options is expected to be recognized over the weighted average remaining service period of 1.6 years for awards outstanding at September 30, 2006.

Prior Year Equity Compensation Expense

Prior to January 1, 2006, the Company applied the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting for stock options. The exercise price of each option issued under the Plan equaled the closing market price of the Company s stock on the date of grant and, therefore, the Company took no charges to the statement of operations with respect to stock options prior to January 1, 2006. The following table illustrates the effect on net income (loss) and net income (loss) per common share for the three and nine months ended September 30, 2005 had the Company applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock Based Compensation,* to equity-based compensation (in thousands, except per-share data):

| | **Three months ended September 30, 2005** | **Nine months ended September 30, 2005** |
|---|---|---|
| Net income, as reported | $ 2,084 | $ 4,847 |
| Deduct: | | |
| Total stock-based compensation expense determined using fair value based method for all awards, net of taxes | (641 ) | (1,917 ) |
| Net income, pro forma | $ 1,443 | $ 2,930 |
| | | |
| Net income per common share: | | |
| Basic and diluted, as reported | $ 0.02 | $ 0.05 |
| Basic and diluted, pro forma | $ 0.01 | $ 0.03 |

The fair value of each stock option included in the preceding pro forma amounts was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 3.83 % |
| Expected life | 5 years |
| Volatility | 67.7 % |
| Expected dividend yield | 0 % |

**4. Inventories**

Inventories consisted of the following as of September 30, 2006 and December 31, 2005 (in thousands):

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| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Raw materials | $ 35,722 | $ 34,916 |
| Work-in process | 44,991 | 33,368 |
| Demonstration units | 15,277 | 18,450 |
| Finished goods | 37,357 | 30,921 |
| Total inventories | $ 133,347 | $ 117,655 |

**5. Goodwill and Other Intangible Assets**

The following is a summary of other intangible assets subject to amortization as of September 30, 2006 and December 31, 2005 (in thousands):

| | | September 30, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|---|
| | Useful Lives in Years | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Existing technology and related patents | 4-5 | $ 5,227 | $ (1,451) | $ 3,776 | $ 2,095 | $ (950) | $ 1,145 |
| Customer relationships | 5 | 310 | (202) | 108 | 310 | (156) | 154 |
| Trade names | 10 | 310 | (100) | 210 | 310 | (76) | 234 |
| Total amortizable intangible assets | | $ 5,847 | $ (1,753) | $ 4,094 | $ 2,715 | $ (1,182) | $ 1,533 |

For the three months ended September 30, 2006 and 2005, the Company recorded amortization expense of approximately $0.3 million and $0.1 million, respectively, related to other amortizable intangible assets. For the nine months ended September 30, 2006 and 2005, the Company recorded amortization expense of approximately $0.6 million and $0.4 million, respectively, related to other amortizable intangible assets.

The estimated future amortization expense related to other amortizable intangible assets is as follows (in thousands):

| For the year ending December 31, | (in thousands) |
|---|---|
| 2006 (a) | $ 464 |
| 2007 | 1,171 |
| 2008 | 952 |
| 2009 | 919 |
| 2010 | 496 |
| Thereafter | 92 |
| Total | $ 4,094 |

(a) Amount represents estimated amortization expense for the remaining three months ending December 31, 2006.

The carrying amount of goodwill as of September 30, 2006 and December 31, 2005 was $40.6 million and $17.5 million, respectively, and is primarily included in the Bruker AXS segment. The Company performs its annual test for indications of impairment as of December 31st each year. The Company completed its annual test for impairment as of December 31, 2005 and determined that goodwill was not impaired at that time.

**6. Warranty Costs**

The Company typically provides a one-year parts and labor warranty with the purchase of equipment. The anticipated cost for this one-year warranty is accrued upon recognition of the sale and is included as a current liability on the balance sheet. The Company also offers to its customers warranty and service agreements extending beyond the initial year of warranty for a fee. These fees are recorded as deferred revenue and amortized into income over the life of the extended warranty contract.

Changes in the Company s accrued warranty liability during the nine months ended September 30, 2006 were as follows

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(in thousands):

| | |
|---|---|
| Warranty accrual at December 31, 2005 | $ 9,326 |
| Accruals for warranties issued during the period | 9,104 |
| Settlements of warranty claims | (7,801) |
| Foreign currency impact | 452 |
| Warranty accrual at September 30, 2006 | $ 11,081 |

**7. Line of Credit**

On July 5, 2006, the Company issued a demand promissory note for a $40.0 million line of credit in the United States. The Company initially borrowed $20 million to finance a portion of the Bruker Optics purchase price; on July 18, 2006 the Company borrowed an additional $10 million to finance the acquisition of KeyMaster. As of September 30, 2006, the Company had $20 million of borrowings outstanding on the line of credit. The note bears interest at the bank s prime rate, LIBOR plus 1%, or a LIBOR advantage rate plus 1% at the request of the Company. All of the Company s obligations under the line of credit are secured by the pledge to the bank of 100% of the capital stock of each of the Company s wholly-owned domestic subsidiaries, each of which also pledged a portion of the stock of certain of their foreign subsidiaries.

**8. Provision for Income Taxes**

For the three months ended September 30, 2006, the Company recorded an income tax provision of $3.5 million compared with an income tax provision of $3.0 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the Company recorded an income tax provision of $9.4 million compared with an income tax provision of $7.5 million for the nine months ended September 30, 2005. In the United States, any income tax provision or benefit is currently recorded as an adjustment to the valuation allowance until sufficient positive evidence exists to support the reversal of a full valuation allowance.

**9. Employee Benefit Plans**

The Company has a defined benefit retirement plan that covers substantially all employees of the Bruker AXS German subsidiary who were employed as of September 30, 1997. The plan provides pension benefits based upon final average salary and years of service.

The net periodic pension benefit cost includes the following components during the three and nine months ended September 30, 2006 and 2005 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Components of net periodic benefit cost** | | | | |
| Service cost | $ 177 | $ 154 | $ 522 | $ 480 |
| Interest cost | 98 | 93 | 290 | 288 |
| Recognized actuarial loss | | | | 197 |
| Amortization | (4) | (9) | (12) | (23) |
| Net periodic benefit cost | $ 271 | $ 238 | $ 800 | $ 942 |

To date, the Company has not funded the defined benefit plan and is not required to make contributions during the remainder of 2006.

**10. Earnings Per Share**

Basic earnings per share is calculated by dividing net earnings by the weighted-average number of common shares outstanding during the period. Except where the result would be antidilutive, the diluted earnings per share computation includes the effect of shares which would be issuable upon the exercise of outstanding stock options, reduced by the number of shares which are assumed to be purchased by the Company from the resulting proceeds at the average market price during the period.

The following table sets forth the computation of basic and diluted average shares outstanding for the three and nine months ended September 30, 2006 and 2005 (in thousands):

| | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Net income, as reported | $ 2,976 | $ 2,084 | $ 8,773 | $ 4,847 |
| **Weighted average shares outstanding:** | | | | |
| Weighted average shares outstanding - basic | 102,038 | 100,851 | 101,635 | 100,848 |
| Net effect of dilutive stock options - based on treasury stock method | 666 | 193 | 455 | 147 |
| Weighted average shares outstanding - diluted | 102,704 | 101,044 | 102,090 | 100,995 |
| Net income per share - basic and diluted | $ 0.03 | $ 0.02 | $ 0.09 | $ 0.05 |

**11. Interest and Other Income (Expense), Net**

The components of interest and other income (expense), net, were as follows for the three and nine months ended September 30, 2006 and 2005 (in thousands):

| | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Interest income | $ 294 | $ 1,013 | $ 1,939 | $ 2,480 |
| Interest expense | (762) | (592) | (1,556) | (1,546) |
| Exchange (losses) gains on foreign currency transactions | (68) | 102 | (1,165) | 661 |
| Appreciation (depreciation) of the fair value of derivative financial instruments | 118 | (337) | 3,893 | (1,879) |
| Other expense | (73) | 27 | 411 | 2 |
| Interest and other income (expense), net | $ (491) | $ 213 | $ 3,522 | $ (282) |

**12. Comprehensive Income (Loss)**

Comprehensive income (loss) refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in other comprehensive income (loss), but excluded from net income as these amounts are recorded directly as an adjustment to stockholders equity, net of tax. The following is a summary of comprehensive income (loss) for the three and nine months ended September 30, 2006 and 2005 (in thousands):

| | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Net income | $ 2,976 | $ 2,084 | $ 8,773 | $ 4,847 |
| Foreign currency translation adjustments | (249) | (514) | 8,265 | (14,608) |
| Total comprehensive income (loss) | $ 2,727 | $ 1,570 | $ 17,038 | $ (9,761) |

**13. Commitments and Contingencies**

Lawsuits, claims and proceedings of a nature considered normal to its businesses may be pending from time to time against the Company. The Company believes the outcome of these proceedings, if any, will not have a material impact on the Company s financial position or results of operations.

**14. Letters of Credit and Guarantees**

As of September 30, 2006 and December 31, 2005, the Company had bank guarantees of $7.4 million and $8.3 million, respectively, for its customer advances. These bank guarantees affect the availability of the Company s lines of credit.

**15. Business Segment Information**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, (SFAS 131) establishes standards for reporting information about reportable segments in financial statements of public business enterprises. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Management is currently reevaluating the internal reporting structure due to the recent acquisition of Bruker Optics, which may require a change to our segment reporting. This evaluation is expected to be completed in the fourth quarter of 2006. The Company reports financial results on the basis of three reportable segments: Bruker Daltonics, Bruker AXS and Bruker Optics. Bruker Daltonics manufactures and distributes mass spectrometry instruments that can be integrated and used along with other analytical instruments. Bruker AXS manufactures and distributes advanced X-ray instrumentation and spark-OES tools used in non-destructive molecular and elemental analysis in academic, research and industrial applications. Bruker Optics manufactures and distributes infrared and Raman molecular spectroscopy instruments and solutions that can be used in analytical and research applications. Bruker BioSciences Corporation, the parent company of Bruker Daltonics, Bruker AXS and Bruker Optics, is the corporate entity that principally incurs certain public company costs.

Selected reportable segment financial information for the three and nine months ended September 30, 2006 and 2005 is presented below (in thousands):

| | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Bruker Daltonics | $ 36,301 | $ 36,949 | $ 113,660 | $ 116,954 |
| Bruker AXS | 47,015 | 33,938 | 123,985 | 100,520 |
| Bruker Optics | 24,517 | 16,085 | 69,373 | 51,134 |
| Eliminations (a) | (2,963) | (1,088) | (6,809) | (3,132) |
| Total | $ 104,870 | $ 85,884 | $ 300,209 | $ 265,476 |
| | | | | |
| **Operating income (loss):** | | | | |
| Bruker Daltonics | $ 1,242 | $ 2,945 | $ 5,707 | $ 6,894 |
| Bruker AXS | 2,836 | 594 | 5,496 | 1,836 |
| Bruker Optics | 5,083 | 2,008 | 9,526 | 6,304 |
| Eliminations (a) | 459 | | 100 | 43 |
| Corporate | (2,636) | (612) | (6,105) | (2,351) |
| Total | $ 6,984 | $ 4,935 | $ 14,724 | $ 12,726 |

(a) represents transactions between segments which is eliminated in consolidation.

**16. Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation sets forth a recognition threshold and valuation method to recognize and measure an income tax position taken, or expected to be taken, in a tax return. The evaluation is based on a two-step approach. The first step requires an entity to evaluate whether the tax position would more likely than not, based upon its technical merits, be sustained upon examination by the appropriate taxing authority. The second step requires the tax position to be measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In addition, previously recognized benefits from tax positions that no longer meet the new criteria would no longer be recognized. The application of this Interpretation will be considered a change in accounting principle with the cumulative effect of the change recorded to the opening balance of retained earnings in the period of adoption. This Interpretation will be effective for the Company on January 1, 2007. The Company is currently evaluating the Interpretation and the impact it may have on its results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* which amends SFAS No. 87 *Employers Accounting for Pensions*, SFAS No. 88 *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106 *Employers Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 132(R) *Employers Disclosures about Pensions and Other Postretirement Benefits*. This Statement requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other post-retirement defined benefit plans, previously disclosed in the footnotes to the financial statements, as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position. In addition, this Statement will require disclosure of the effects of the unrecognized gains or losses, prior service costs and transition asset or obligation on the next fiscal year s net periodic benefit cost. This Statement is effective for all financial statements issued for fiscal years ending after December 15, 2006 and retrospective application of this Statement is not permitted. The Company is in the process of evaluating the impact the adoption of SFAS No. 158 may have on its results of operations and financial position.

**ITEM 2: Management s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and the notes to those statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, and in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

Statements contained in Management s Discussion and Analysis of Financial Condition and Results of Operations which express that we believe , anticipate , expect or plan to , as well as other statements which are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. Actual events or results may differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference are discussed in Factors Affecting Our Business, Operating Results and Financial Condition set forth in our Annual Report on Form 10-K for the year ended December 31, 2005.

**OVERVIEW**

The following management s discussion and analysis of financial condition and results of operations (MD&A) describes the principal factors affecting the results of our operations, financial condition, and changes in financial condition, as well as our critical accounting policies and estimates. MD&A is organized as follows:

- *Executive overview.* This section provides a general description and history of our business, a brief discussion of our reportable segments and significant recent developments in our business.

- *Critical accounting policies and estimates.* This section discusses the accounting estimates that are considered important to our financial condition and results of operations and require us to exercise subjective or complex judgments in their application.

- *Results of operations.* This section provides our analysis of the significant line items in our consolidated statement of operations for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005.

- *Liquidity and capital resources.* This section provides an analysis of our liquidity and cash flow and a discussion of our outstanding debt and commitments.

**EXECUTIVE OVERVIEW**

On July 1, 2006, the Company completed its acquisition of Bruker Optics. Both the Company and Bruker Optics were majority owned by five affiliated stockholders prior to the acquisition. As a result, the acquisition of Bruker Optics by the Company is considered a business combination of companies under common control, and has been accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquisition of Bruker Optics, as it relates to the portion under common ownership (approximately 96%), has been accounted for at historical carrying values. The portion not under the common ownership of the five affiliated stockholders (approximately 4%) has been accounted for using the purchase method of accounting (at fair value) on a pro rata basis. Any excess purchase price of the interest not under common control over the fair value of the related net assets acquired has been accounted for as goodwill and intangible assets. Because this acquisition was essentially considered a pooling of interests, all one-time transaction costs have been expensed as incurred rather than being added to goodwill. During the nine months ended September 30, 2006, the Company incurred and expensed acquisition related charges totaling $5.8 million, which consisted of investment banking, legal and accounting fees, compensation earned by the special committee of the Company s Board of Directors and antitrust regulation filing fees. The historical financial statements within MD&A have been presented as if the companies had always been combined.

Bruker BioSciences and its wholly-owned subsidiaries design, manufacture, market and service proprietary life science and materials research systems based on mass spectrometry core technology platforms, X-ray technologies, optical emission spectroscopy (OES), and molecular spectroscopy technologies. We also manufacture and distribute a broad range of field analytical systems for chemical, biological, radiological and nuclear, or CBRN, detection. We currently report financial results on the basis of three reportable segments: Bruker Daltonics, Bruker AXS and Bruker Optics. As a result of the Bruker Optics acquisition, management is currently reevaluating the internal reporting structure which may require a change to our segment reporting. This evaluation is expected to be completed in the fourth quarter of 2006. Bruker Daltonics is a leading manufacturer of innovative mass spectrometry-based instruments and accessories used by pharmaceutical, biotechnology, proteomics and molecular diagnostics companies, academic institutions, and government agencies in their research that can

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also be integrated and used along with other analytical instruments. Bruker Daltonics also manufactures and distributes a broad range of field analytical systems for CBRN detection. Bruker AXS primarily engages in the business of manufacturing and distributing advanced instrumentation and automated solutions based on X-ray technology and spark-OES with the purpose of addressing the needs of our customers in the discovery of new drugs, drug targets and advanced materials, as well as industrial QA/QC applications. Typical customers of Bruker AXS products and solutions include biotechnology and pharmaceutical companies, semiconductor industries, chemical, cement, metals and petroleum companies, raw material manufacturers, and academic and government research institutions. Bruker Optics is a leading developer, manufacturer and provider of research, analytical and process analysis instruments and solutions based on infrared and Raman molecular spectroscopy technology. Typical customers of Bruker Optics products and solutions include pharmaceutical and biotechnology companies, cement and petroleum companies, food, beverage and agricultural industries, and academic and government research institutions.

We maintain major technical and manufacturing centers in Europe, North America and Japan, we have sales offices located throughout the world and our corporate headquarters is located in Billerica, Massachusetts. Our business strategy is to capitalize on our proven ability to innovate and generate rapid revenue growth, both organically and through acquisitions. Our revenue growth strategy, combined with continued improvements to our gross profit margins and increased leverage on our research and development, sales and marketing and distribution investments and general and administrative expenses, are expected to enhance our operating margins and improve our earnings in the future.

For the nine months ended September 30, 2006, excluding the effect of foreign currency translation, our revenues grew by 15.0% to $300.2 million. Of this revenue growth, 5.6% was related to acquisitions and 9.4% was organic. We continue to focus on improving our profitability and our gross profit margins for product and service revenues improved from 44.2% during the nine months ended September 30, 2005 to 45.1% for the nine months ended September 30, 2006, reflecting improvements realized from ongoing gross profit margin improvement programs and contributions from our recent acquisitions. We continue to invest in sales and marketing initiatives, primarily headcount increases, which has resulted in our sales and marketing expenses as a percentage of product and service revenue to increase year-over-year. We expect these investments to result in increased revenues in future periods. Our ongoing cost control initiatives resulted in decreases in both general and administrative and research and development expenses as a percentage of product and service revenue during the first nine months of 2006 compared to the first nine months of 2005.

With the addition of Bruker Optics, we increased and diversified our market presence, technology base, product line, global distribution and customer support capabilities. We believe the addition of Bruker Optics will help increase our critical mass in many of the markets we serve, create revenue synergies, diversify our customer and revenue base and expand our product and service offerings, all of which should provide us with revenue growth opportunities and accelerate our drive to improve our margins, net income and operating cash flow. The acquisition of Bruker Optics also provides us access to new market segments and applications, particularly in pharmaceutical process analytical technologies and pharma-forensics, as well as in food and beverage and feed and agricultural analysis.

On July 18, 2006, we acquired KeyMaster which will provide us with access to the fast growing handheld and portable X-ray analysis market. We believe the technologies KeyMaster has developed, and the markets it serves, are highly complimentary to our core businesses.

On September 6, 2006, we acquired Quantron which will complement our existing stationary X-ray fluorescence (XRF) systems for metal foundries, as well as our new handheld XRF product line. We believe Quantron s spark-OES systems and technology will further strengthen the industrial analysis business of Bruker AXS.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment.* This standard revised the measurement, valuation and recognition of financial accounting and reporting standards for equity-based compensation plans contained in SFAS No. 123, *Accounting for Stock Based Compensation*. The new standard required companies to expense the value of employee stock options and similar equity-based compensation awards based on fair value recognition provisions determined on the date of grant.

We adopted SFAS No. 123(R) using the modified prospective transition method, which required the application of the accounting standard on January 1, 2006, the effective date of the standard for us. In accordance with the modified prospective transition method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). The effect of implementing SFAS No. 123 (R) was not typically material to the overall results of operations or specific line items within the consolidated statement of operations, and as a result was not referenced often within the discussions on results of operations in the accompanying MD&A. For the nine months ended September 30, 2006, the $0.7 million, net of tax, in stock-based compensation expense was allocated as follows (in thousands):

| | Nine months ended September 30, 2006 |
|---|---|
| Production and Logistics | $ 48 |
| Sales and Marketing | 326 |
| General and Administrative | 217 |
| Research and Development | 108 |
| Total stock-based compensation expense | $ 699 |

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts, inventories, goodwill, long-lived assets, warranty costs, income taxes, contingencies, and restructuring. We base our estimates and judgments on historical experience, current market and economic conditions, our observance of industry trends and other assumptions that we believe are reasonable and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following critical accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment.

- *Revenue recognition.* We recognize revenue from system sales when persuasive evidence of an arrangement exists, the price is fixed or determinable, title and risk of loss has been transferred to the customer and collectibility of the resulting receivable is reasonably assured. Title and risk of loss is generally transferred to the customer upon receipt of a signed customer acceptance form for a system that has been shipped, installed, and for which the customer has been trained. As a result, the timing of customer acceptance or readiness could cause our reported revenues to differ materially from expectations. When products are sold through an independent distributor, a strategic distribution partner or an unconsolidated affiliated distributor, which assumes responsibility for installation, we recognize the system sale when the product has been shipped and title and risk of loss have been transferred. Our distributors do not have price protection rights or rights to return; however, our products are warranted to be free from defect for a period of one year. Revenue is deferred until cash is received when a significant portion of the fee is due over one year after delivery, installation and acceptance of a system. For arrangements with multiple elements, we recognize revenue for each element based on the fair value of the element, provided all other criteria for revenue recognition have been met. The fair value for each element provided in multiple element arrangements is typically determined by referencing historical pricing policies when the element is sold separately. Changes in our ability to establish the fair value for each element in multiple element arrangements could affect the timing of revenue recognition. Revenue from accessories and parts is recognized upon shipment and service revenue is recognized as the services are performed.

- *Warranty costs.* We normally provide a one-year parts and labor warranty with the purchase of equipment. The anticipated cost for this one-year warranty is accrued upon recognition of the sale and is included as a current liability on the balance sheet. Although our facilities undergo quality assurance and testing procedures throughout the production process, our warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Although our actual warranty costs have historically been consistent with expectations, to the extent warranty claim activity or costs associated with servicing those claims differ from our estimates, revisions to the warranty accrual may be required.

- *Inventories.* Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out method. We maintain an allowance for excess and obsolete inventory to reflect the expected un-saleable or un-refundable inventory based on an evaluation of slow moving products. If ultimate usage or demand varies significantly from expected usage or demand, additional write-downs may be required, resulting in a charge to operations.

- *Goodwill, other intangible assets, investments in other companies, and other long-lived assets.* We perform an evaluation of whether goodwill is impaired annually or when events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Fair value is determined using market comparables for similar businesses or forecasts of discounted future cash flows. We also review other intangible assets, investments in other companies, and other long-lived assets when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Should the fair value of our long-lived assets decline because of reduced operating performance, market declines, or other indicators of impairment, a charge to operations for impairment may be necessary.

- *Allowance for doubtful accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay amounts due. If the financial condition of our customers were to deteriorate, reducing their ability to make payments, additional allowances would be required, resulting in a charge to operations.

- *Income taxes.* We estimate the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction, and provide a valuation allowance for tax assets and loss carryforwards that we believe will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carryforward will be used for which a reserve has been provided, we reverse the related valuation allowance. If our actual future taxable income by tax jurisdiction differs from estimates, additional allowances or reversals of reserves may be necessary.

**Results of Operations**

***Three months ended September 30, 2006 compared to the three months ended September 30, 2005***

***Revenue***

The following table presents revenue, change in revenue and revenue growth by reportable segment for the three months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | 2005 | $ Change | Percentage Change |
|---|---|---|---|---|
| Bruker Daltonics | $ 36,301 | $ 36,949 | $ (648) | -1.8 % |
| Bruker AXS | 47,015 | 33,938 | 13,077 | 38.5 % |
| Bruker Optics | 24,517 | 16,085 | 8,432 | 52.4 % |
| Eliminations (a) | (2,963) | (1,088) | (1,875) | |
| Total Revenue | $ 104,870 | $ 85,884 | $ 18,986 | 22.1 % |

(a) represents revenue recorded on transactions between segments which is eliminated in consolidation.

Bruker Daltonics revenue decreased by $0.6 million, or 1.8%, to $36.3 million for the three months ended September 30, 2006 compared to $36.9 million for the comparable period in 2005. Included in this change in revenue is approximately $0.8 million from the impact of foreign exchange. Excluding the effect of the foreign exchange benefit, revenue decreased by 4.1%. The decrease in revenue excluding the effect of foreign exchange is a result of slight declines in life science systems and CBRN detection systems revenue year-over-year and substantially reduced grant revenue partially offset by improved aftermarket sales in the third quarter of 2006 compared to the third quarter of 2005. Aftermarket revenues include accessory sales, consumables, training and services. Included in other revenue during the three months ended September 30, 2006 and 2005 are grant revenues from various projects for early-stage research and development projects funded by the German and United States governments. Life science systems, CBRN detection systems and aftermarket revenue as a percentage of Bruker Daltonics product and service revenue were as follows during the three months ended September 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Life Science Systems | $ 26,381 | 73.2 % | $ 26,580 | 73.8 % |
| CBRN Detection Systems | 2,175 | 6.0 % | 2,287 | 6.3 % |
| Bruker Daltonics Aftermarket | 7,487 | 20.8 % | 7,154 | 19.9 % |
| Product and Service Revenue | 36,043 | 100 % | 36,021 | 100 % |
| Grant Revenue | 258 | | 928 | |
| Total Revenue | $ 36,301 | | $ 36,949 | |

Bruker AXS revenue increased by $13.1 million, or 38.5%, to $47.0 million for the three months ended September 30, 2006 compared to $33.9 million for the comparable period in 2005. Included in this change in revenue is approximately $0.8 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 36.1%. The increase in revenue is attributable to the businesses acquired over the last four quarters, which represented approximately 14% of the revenue growth, and an increase in materials research system sales, other systems revenue and aftermarket revenue. Other system revenue relates primarily to the distribution of products not manufactured by Bruker AXS. X-ray systems, other systems and aftermarket revenue as a percentage of Bruker AXS product and service revenue were as follows during the three months ended September 30, 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| X-Ray Systems | $ 32,129 | 68.3 % | $ 23,072 | 68.0 % |
| Other System Revenue | 3,534 | 7.5 % | 2,290 | 6.7 % |
| Bruker AXS Aftermarket | 11,352 | 24.1 % | 8,576 | 25.3 % |
| Total Product and Service Revenue | $ 47,015 | 100 % | $ 33,938 | 100 % |

Bruker Optics revenue increased by $8.4 million, or 52.4%, to $24.5 million for the three months ended September 30, 2006 compared to $16.1 million for the comparable period in 2005. Included in this change in revenue is approximately $0.9 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 47.0%. The increase in revenue excluding the effect of foreign exchange is a result of an increase in infrared ( IR ) systems revenue, especially in Europe and the Pacific Rim, as well as $2.4 million of revenue under a contract with the Chinese State Food and Drug Administration (the Chinese SFDA ). The strong IR systems revenue growth year-over-year is partially due to the implementation of SAP in our Germany factory in the third quarter of 2005 which delayed certain system shipments until the fourth quarter of 2006. Aftermarket revenues include accessory sales, consumables, training and services. Other system revenue relates primarily to the distribution of products not manufactured by Bruker Optics. IR systems, other systems and aftermarket revenue as a percentage of Bruker Optics product and service revenue were as follows during the three months ended September 30, 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| IR Systems | $ 18,694 | 76.2 % | $ 11,445 | 71.2 % |
| Other System Revenue | 1,524 | 6.2 % | 1,767 | 11.0 % |
| Bruker Optics Aftermarket | 4,299 | 17.5 % | 2,873 | 17.9 % |
| Total Product and Service Revenue | $ 24,517 | 100 % | $ 16,085 | 100 % |

***Cost of Revenue***

The following table presents cost of product and service revenue and gross profit margins on product and service revenue by reportable segment for the three months ended September 30, 2006 and 2005 (dollars in thousands):

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| | 2006 Cost of Revenue | Gross Profit Margin | 2005 Cost of Revenue | Gross Profit Margin |
|---|---|---|---|---|
| Bruker Daltonics | $ 21,441 | 40.5 % | $ 19,434 | 46.0 % |
| Bruker AXS | 28,944 | 38.4 % | 21,034 | 38.0 % |
| Bruker Optics | 11,244 | 54.0 % | 7,795 | 51.5 % |
| Eliminations (a) | (2,942 ) | | (1,088 ) | |
| Total Cost of Revenue | $ 58,687 | 43.9 % | $ 47,175 | 44.5 % |

(a) represents the cost of revenues between segments which is eliminated in consolidation.

Bruker Daltonics cost of product and service revenue for the three months ended September 30, 2006 was $21.4 million, resulting in a gross profit margin of 40.5%, compared to cost of product and service revenue of $19.4 million, or a gross profit margin of 46.0% for the comparable period in 2005. The decrease in gross profit margin is primarily attributable to lower CBRN detection system revenues year-over-year and pricing pressures due to increased competition.

Bruker AXS cost of product and service revenue for the three months ended September 30, 2006 was $28.9 million, resulting in a gross profit margin of 38.4%, compared to cost of product and service revenue of $21.0 million, or a gross profit margin of 38.0% for the comparable period in 2005. The increase in gross profit margin is primarily attributable to the higher margin businesses acquired over the past four quarters, the realization of benefits from various ongoing gross profit margin improvement programs and better capacity utilization as a result of increased revenues year-over-year, partially offset by lower gross profit margins realized on other system revenue and sales of certain life science systems.

Bruker Optics cost of product and service revenue for the three months ended September 30, 2006 was $11.2 million, resulting in a gross profit margin of 54.0%, compared to cost of product and service revenue of $7.8 million, or a gross profit margin of 51.5% for the comparable period in 2005. The increase in gross profit margin is primarily attributable to higher margins realized on the Chinese SFDA systems and improved capacity utilization as a result of increased revenues year-over-year.

***Sales and Marketing***

The following table presents sales and marketing expense and sales and marketing expense as a percentage of product and service revenue by reportable segment for the three months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 Sales and Marketing | Percentage of Segment Product and Service Revenue | 2005 Sales and Marketing | Percentage of Segment Product and Service Revenue |
|---|---|---|---|---|
| Bruker Daltonics | $ 5,795 | 16.1 % | $ 5,582 | 15.5 % |
| Bruker AXS | 7,956 | 16.9 % | 6,263 | 18.5 % |
| Bruker Optics | 5,312 | 21.7 % | 4,015 | 25.0 % |
| Total Sales and Marketing | $ 19,063 | 18.2 % | $ 15,860 | 18.7 % |

Bruker Daltonics sales and marketing expense for the three months ended September 30, 2006 increased to $5.8 million, or 16.1% of product and service revenue, from $5.6 million, or 15.5% of product and service revenue for the comparable period in 2005. The increase in sales and marketing expense is attributable to incremental investments in various sales and marketing initiatives, primarily related to an increase in applications resources.

Bruker AXS sales and marketing expense for the three months ended September 30, 2006 increased to $8.0 million, or 16.9% of product and service revenue, from $6.3 million, or 18.5% of product and service revenue for the comparable period in 2005. The increase in sales and marketing expense is primarily attributable to increased headcount related to the acquisitions completed over the last four quarters.

Bruker Optics sales and marketing expense for the three months ended September 30, 2006 increased to $5.3 million, or 21.7% of product and service revenue, from $4.0 million, or 25.0% of product and service revenue for the comparable

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period in 2005. The increase in sales and marketing expense is primarily attributable to higher commissions on increased revenues year-over-year. The decrease in sales and marketing expense as a percentage of product and service revenue is attributable to the leveraging of our sales and marketing infrastructure.

***General and Administrative***

The following table presents general and administrative expense and general and administrative expense as a percentage of product and service revenue by reportable segment for the three months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | General and Administrative | Percentage of Segment Product and Service Revenue | General and Administrative | Percentage of Segment Product and Service Revenue |
| Bruker Daltonics | $ 2,048 | 5.7 % | $ 2,285 | 6.3 % |
| Bruker AXS | 3,309 | 7.0 % | 2,780 | 8.2 % |
| Bruker Optics | 1,104 | 4.5 % | 708 | 4.4 % |
| Corporate | 778 | | 612 | |
| Total General and Administrative | $ 7,239 | 6.9 % | $ 6,385 | 7.5 % |

Bruker Daltonics general and administrative expense for the three months ended September 30, 2006 decreased to $2.0 million, or 5.7% of product and service revenue, from $2.3 million, or 6.3% of product and service revenue for the comparable period of 2005. The decrease in general and administrative expenses is primarily attributable to lower bad debt expense year-over-year and benefits from ongoing cost reduction initiatives.

Bruker AXS general and administrative expenses for the three months ended September 30, 2006 increased to $3.3 million, or 7.0% of product and service revenue, from $2.8 million, or 8.2% of product and service revenue for the comparable period in 2005. The increase in general and administrative expenses is primarily due to increased headcount and intangible asset amortization associated with the acquisitions completed over the past four quarters.

Bruker Optics general and administrative expenses for the three months ended September 30, 2006 increased to $1.1 million, or 4.5% of product and service revenue, from $0.7 million, or 4.4% of product and service revenue for the comparable period of 2005. The increase in general and administrative expenses is primarily attributable to the allocated corporate general and administrative expenses associated with a public company.

Corporate general and administrative expense for the three months ended September 30, 2006 increased to $0.8 million from $0.6 million for the comparable period in 2005. Corporate general and administrative expenses represent expenses associated with being a public company not allocated to our reportable segments, including legal fees, audit and consulting fees, salaries and filing fees. The increase in expenses is primarily attributable to stock-based compensation charges in the third quarter of 2006 not recorded in the third quarter of 2005.

***Research and Development***

The following table presents research and development expense and research and development expense as a percentage of product and service revenue by reportable segment for the three months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Research and Development | Percentage of Segment Product and Service Revenue | Research and Development | Percentage of Segment Product and Service Revenue |
| Bruker Daltonics | $ 5,921 | 16.4 % | $ 6,703 | 18.6 % |
| Bruker AXS | 4,100 | 8.7 % | $ 3,266 | 9.6 % |
| Bruker Optics | 1,915 | 7.8 % | 1,560 | 9.7 % |
| Total Research and Development | $ 11,936 | 11.4 % | $ 11,529 | 13.6 % |

Bruker Daltonics research and development expense for the three months ended September 30, 2006 decreased to $5.9 million, or 16.4% of product and service revenue, from $6.7 million, or 18.6% of product and service revenue for the comparable period in 2005. The decrease in research and development expense is primarily attributable to a decrease in material purchases during the third quarter of 2006 compared to the third quarter of 2005 and to a reduction in headcount year-over-year.

Bruker AXS research and development expense for the three months ended September 30, 2006 increased to $4.1 million, or 8.7% of product and service revenue, from $3.3 million, or 9.6% of product and service revenue for the comparable period in 2005. The increase in research and development expense is primarily attributable to an increase in headcount resulting from the acquisitions completed over the past four quarters.

Bruker Optics research and development expense for the three months ended September 30, 2006 increased to $1.9 million, or 7.8% of product and service revenue, from $1.6 million, or 9.7% of product and service revenue for the comparable period in 2005. The increase in research and development expense is primarily attributable to an increase in material purchases and headcount during the third quarter of 2006 compared to the third quarter of 2005.

***Acquisition Related Charges***

On April 18, 2006, the Company announced that it had entered into a definitive agreement to acquire all of the stock of molecular spectroscopy company Bruker Optics. The acquisition of Bruker Optics was approved by the Company s shareholders on June 29, 2006 and was subsequently completed on July 1, 2006. Since this acquisition represented a business combination of companies under common control due to a majority ownership by individuals in both the Company and Bruker Optics, this acquisition has been accounted for in a manner similar to a pooling-of-interest. As a result, transaction costs have been expensed as incurred rather than being included in a purchase price allocation. During the third quarter of 2006, the Company incurred acquisition related charges totaling $1.0 million, which consisted primarily of investment banking and legal fees.

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net, during the three months ended September 30, 2006 was $(0.5) million, compared to $0.2 million during the three months ended September 30, 2005. During the three months ended September 30, 2006, the major components within interest and other income (expense), net, were net interest expense of $(0.5) million, losses on foreign currency transactions of $(0.1) million and the appreciation of the fair value of derivative financial instruments of $0.1 million. During the three months ended September 30, 2005, the major components within interest and other income (expense), net, were net interest income of $0.4 million, gains on foreign currency transactions of $0.1 million and depreciation of the fair value of derivative financial instruments of $(0.3) million.

***Provision for Income Taxes***

The income tax provision for the three months ended September 30, 2006 was $3.5 million compared to an income tax provision of $3.0 million for the three months ended September 30, 2005, representing effective tax rates of 54% and 59%, respectively. Our effective tax rate reflects our tax provision for non-U.S. entities only, since no benefit was recognized for losses incurred in the U.S. We will maintain a full valuation allowance for our U.S. net operating losses until evidence exists that it is more likely than not that the loss carry forward amounts will be utilized to offset U.S. taxable income. Our tax rate may change over time as the amount or mix of income and taxes outside the U.S. changes. Our effective tax rate is calculated using our projected annual pre-tax income or loss and is affected by research and development tax credits, the expected level of other tax benefits, and the impact of changes to the valuation allowance, as well as changes in the mix of our pre-tax income and losses among jurisdictions with varying statutory tax rates and credits.

***Minority Interest in Consolidated Subsidiaries***

Minority interest in consolidated subsidiaries for the three months ended September 30, 2006 was ($18,000) compared to $28,000 in the comparable period of 2005. The minority interest in subsidiaries represents the minority shareholders proportionate share of net income of those subsidiaries for the three months ended September 30, 2006 and 2005. For the three months ended September 30, 2006 and 2005, the minority interest relates to our two majority-owned subsidiaries, Incoatec GmbH and Baltic Scientific Instruments Ltd.

***Nine months ended September 30, 2006 compared to the nine months ended September 30, 2005***

***Revenue***

The following table presents revenue, change in revenue and revenue growth by reportable segment for the nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | 2005 | $ Change | Percentage Change |
|---|---|---|---|---|
| Bruker Daltonics | $ 113,660 | $ 116,954 | $ (3,294 ) | -2.8 % |
| Bruker AXS | 123,985 | 100,520 | 23,465 | 23.3 % |
| Bruker Optics | 69,373 | 51,134 | 18,239 | 35.7 % |
| Eliminations (a) | (6,809 ) | (3,132 ) | (3,677 ) | |
| Total Revenue | $ 300,209 | $ 265,476 | $ 34,733 | 13.1 % |

(a) represents revenue recorded on transactions between segments which is eliminated in consolidation.

Bruker Daltonics revenue decreased by $3.3 million, or 2.8%, to $113.7 million for the nine months ended September 30, 2006 compared to $117.0 million for the comparable period in 2005. Included in this change in revenue is approximately $2.3 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue decreased by 0.9%. The decrease in revenue excluding the effect of foreign exchange is a result of higher life science system revenues year-over-year, offset by lower aftermarket revenues, which includes accessory sales, consumables, training and services, by lower sales of CBRN systems during the first nine months of 2006 compared to the first nine months of 2005 and by pricing pressures from increased competition. Included in other revenue for the nine months ended September 30, 2006 and 2005 are grant revenues from various projects for early-stage research and development projects funded by the German and United States governments. Life science systems, CBRN detection systems and aftermarket revenue as a percentage of Bruker Daltonics product and service revenue were as follows during the nine months ended September 30, 2006 and 2005.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Life Science Systems | $ 85,982 | 76.4 % | $ 81,243 | 70.6 % |
| CBRN Detection Systems | 5,591 | 5.0 % | 10,962 | 9.5 % |
| Bruker Daltonics Aftermarket | 20,952 | 18.6 % | 22,821 | 19.9 % |
| Product and Service Revenue | 112,525 | 100 % | 115,026 | 100 % |
| Grant Revenue | 1,135 | | 1,928 | |
| Total Revenue | $ 113,660 | | $ 116,954 | |

Bruker AXS revenue increased by $23.5 million, or 23.3%, to $124.0 million for the nine months ended September 30, 2006 compared to $100.5 million for the comparable period in 2005. Included in this change in revenue is approximately $1.8 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 25.1%. The increase in revenue is attributable to the businesses acquired over the last four quarters, which represented approximately 9% of the revenue growth, and an increase in materials research system sales, other systems and aftermarket revenue. Other system revenue relates primarily to the distribution of products not manufactured by Bruker AXS. X-ray systems, other systems and aftermarket revenue as a percentage of Bruker AXS product and service revenue were as follows during the nine months ended September 30, 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| X-Ray Systems | $ 83,405 | 67.3 % | $ 70,669 | 70.3 % |
| Other System Revenue | 6,221 | 5.0 % | 4,415 | 4.4 % |
| Bruker AXS Aftermarket | 34,359 | 27.7 % | 25,436 | 25.3 % |
| Total Product and Service Revenue | $ 123,985 | 100 % | $ 100,520 | 100 % |

Bruker Optics revenue increased by $18.2 million, or 35.7%, to $69.4 million for the nine months ended September 30, 2006 compared to $51.1 million for the comparable period in 2005. Included in this change in revenue is approximately $0.1 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 35.5%. The increase in revenue excluding the effect of foreign exchange is a result of an increase in IR system revenues throughout the globe especially in Europe and the Pacific Rim, as well as the recognition of $6.1 million of revenue during the second and third quarters of 2006 under a contract with the Chinese SFDA. The strong IR systems revenue growth year-over-year is partially due to the implementation of SAP in our Germany factory in the third quarter of 2005 which delayed certain system shipments until the fourth quarter of 2005. Other system revenue relates primarily to the distribution of products not manufactured by Bruker Optics. IR systems, other systems and aftermarket revenue as a percentage of Bruker Optics product and service revenue were as follows during the nine months ended September 30, 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| IR Systems | $ 52,396 | 75.5 % | $ 37,106 | 72.6 % |
| Other System Revenue | 5,467 | 7.9 % | 5,749 | 11.2 % |
| Bruker Optics Aftermarket | 11,510 | 16.6 % | 8,280 | 16.2 % |
| Total Product and Service Revenue | $ 69,373 | 100 % | $ 51,135 | 100 % |

***Cost of Revenue***

The following table presents cost of product and service revenue and gross profit margins on product and service revenue by reportable segment for the nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Cost of Revenue | Gross Profit Margin | Cost of Revenue | Gross Profit Margin |
| Bruker Daltonics | $ 65,795 | 41.5 % | $ 64,952 | 43.5 % |
| Bruker AXS | 72,100 | 41.8 % | 60,179 | 40.1 % |
| Bruker Optics | 33,325 | 51.9 % | 24,916 | 51.2 % |
| Eliminations (a) | (7,173 ) | | (3,176 ) | |
| Total Cost of Revenue | $ 164,047 | 45.1 % | $ 146,871 | 44.2 % |

(a) represents the cost of revenues between segments which is eliminated in consolidation.

Bruker Daltonics cost of product and service revenue for the nine months ended September 30, 2006 was $65.8 million, resulting in a gross profit margin of 41.5%, compared to cost of product and service revenue of $65.0 million, or a gross profit margin of 43.5% for the comparable period in 2005. The decrease in gross profit margin is primarily attributable to lower CBRN detection system revenues year-over-year and pricing pressures due to increased competition.

Bruker AXS cost of product and service revenue for the nine months ended September 30, 2006 was $72.1 million, resulting in a gross profit margin of 41.8%, compared to cost of product and service revenue of $60.2 million, or a gross profit margin of 40.1% for the comparable period in 2005. The increase in gross profit margin is primarily attributable to the

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higher margin businesses acquired over the last four quarters, the realization of benefits from various ongoing gross profit margin improvement programs and better capacity utilization as a result of increased revenue period-over-period, partially offset by lower gross profit margins realized on other system revenue.

Bruker Optics cost of product and service revenue for the nine months ended September 30, 2006 was $33.3 million, resulting in a gross profit margin of 51.9%, compared to cost of product and service revenue of $24.9 million, or a gross profit margin of 51.2% for the comparable period in 2005. The increase in gross profit margin is primarily attributable to higher margins realized on the Chinese SFDA systems and better capacity utilization as a result of increased revenues year-over-year.

***Sales and Marketing***

The following table presents sales and marketing expense and sales and marketing expense as a percentage of product and service revenue by reportable segment for the nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | **2006** | | **2005** | |
|---|---|---|---|---|
| | **Sales and Marketing** | **Percentage of Segment Product and Service Revenue** | **Sales and Marketing** | **Percentage of Segment Product and Service Revenue** |
| Bruker Daltonics | $ 18,702 | 16.6 % | $ 17,404 | 15.1 % |
| Bruker AXS | 24,448 | 19.7 % | 19,978 | 19.9 % |
| Bruker Optics | 15,645 | 22.6 % | 13,054 | 25.5 % |
| Total Sales and Marketing | $ 58,795 | 19.7 % | $ 50,436 | 19.1 % |

Bruker Daltonics sales and marketing expense for the nine months ended September 30, 2006 increased to $18.7 million, or 16.6% of product and service revenue, from $17.4 million, or 15.1% of product and service revenue for the comparable period in 2005. The increase in sales and marketing expense is attributable to incremental investments in various sales and marketing initiatives, primarily headcount related.

Bruker AXS sales and marketing expense for the nine months ended September 30, 2006 increased to $24.4 million, or 19.7% of product and service revenue, from $20.0 million, or 19.9% of product and service revenue for the comparable period in 2005. The increase in sales and marketing expense is primarily attributable to increased headcount related to the acquisitions over the past four quarters and incremental investments in various sales and marketing initiatives during the first nine months of 2006.

Bruker Optics sales and marketing expense for the nine months ended September 30, 2006 increased to $15.6 million, or 22.6% of product and service revenue, from $13.1 million, or 25.5% of product and service revenue for the comparable period in 2005. The increase in sales and marketing expense is primarily attributable to higher commissions on increased revenues year-over-year. The decrease in sales and marketing expense as a percentage of product and service revenue is attributable to the leveraging of our sales and marketing infrastructure.

***General and Administrative***

The following table presents general and administrative expense and general and administrative expense as a percentage of product and service revenue by reportable segment for the nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | General and Administrative | Percentage of Segment Product and Service Revenue | General and Administrative | Percentage of Segment Product and Service Revenue |
| Bruker Daltonics | $ 5,588 | 5.0 % | $ 6,603 | 5.7 % |
| Bruker AXS | 9,514 | 7.7 % | 7,678 | 7.6 % |
| Bruker Optics | 3,036 | 4.4 % | 2,257 | 4.4 % |
| Corporate | 2,181 | | 2,351 | |
| Total General and Administrative | $ 20,319 | 6.8 % | $ 18,889 | 7.2 % |

Bruker Daltonics general and administrative expense for the nine months ended September 30, 2006 decreased to $5.6 million, or 5.0% of product and service revenue, from $6.6 million, or 5.7% of product and service revenue for the comparable period of 2005. The decrease in general and administrative expenses is primarily attributable to lower bad debt expenses year-over-year and benefits from ongoing cost reduction initiatives.

Bruker AXS general and administrative expenses for the nine months ended September 30, 2006 increased to $9.5 million, or 7.7% of product and service revenue, from $7.7 million, or 7.6% of product and service revenue for the comparable period in 2005. The increase in general and administrative expenses is primarily due to increased headcount and intangible asset amortization related to the acquisitions completed over the past four quarters.

Bruker Optics general and administrative expenses for the nine months ended September 30, 2006 increased to $3.0 million, or 4.4% of product and service revenue, from $2.3 million, or 4.4% of product and service revenue for the comparable period in 2005. The increase in general and administrative expenses is primarily due to the expansion of the business and to allocated corporate general and administrative expenses associated with being a public company.

Corporate general and administrative expense for the nine months ended September 30, 2006 decreased to $2.2 million from $2.4 million for the comparable period in 2005. Corporate general and administrative expenses represent expenses associated with being a public company not allocated to our reportable segments, including legal fees, audit and consulting fees, salaries and filing fees. The decrease in expenses is primarily attributable to ongoing cost reduction initiatives, partially offset by stock-based compensation charges in 2006 not required to be recorded in 2005, and increased headcount year-over-year.

***Research and Development***

The following table presents research and development expense and research and development expense as a percentage of product and service revenue by reportable segment for the nine months ended September 30, 2006 and 2005 (dollars in thousands):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Research and Development | Percentage of Segment Product and Service Revenue | Research and Development | Percentage of Segment Product and Service Revenue |
| Bruker Daltonics | $ 18,287 | 16.3 % | $ 21,101 | 18.3 % |
| Bruker AXS | 12,727 | 10.3 % | 10,850 | 10.8 % |
| Bruker Optics | 5,481 | 7.9 % | 4,603 | 9.0 % |
| Total Research and Development | $ 36,495 | 12.2 % | $ 36,554 | 13.9 % |

Bruker Daltonics research and development expense for the nine months ended September 30, 2006 decreased to $18.3 million, or 16.3% of product and service revenue, from $21.1 million, or 18.3% of product and service revenue for the comparable period in 2005. The decrease in research and development expense is primarily attributable to a decrease in material purchases during the nine months ended September 30, 2006 compared to the comparable period in 2005 and to a reduction in headcount year-over-year.

Bruker AXS research and development expense for the nine months ended September 30, 2006 increased to $12.7 million, or 10.3% of product and service revenue, from $10.9 million, or 10.8% of product and service revenue for the

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comparable period in 2005. The increase in research and development expense is primarily attributable to an increase in headcount resulting from the acquisitions completed over the past four quarters, and increased material purchases during the first nine months of 2006 compared to the comparable period in 2005.

Bruker Optics research and development expense for the nine months ended September 30, 2006 increased to $5.5 million, or 7.9% of product and service revenue, from $4.6 million, or 9.0% of product and service revenue for the comparable period in 2005. The increase in research and development expense is primarily attributable to an increase in material purchases and headcount during the first nine months of 2006 compared to the comparable period in 2005.

***Acquisition Related Charges***

On April 18, 2006, the Company announced that it had entered into a definitive agreement to acquire all of the stock of molecular spectroscopy company Bruker Optics. The acquisition of Bruker Optics was approved by the Company s shareholders on June 29, 2006 and was subsequently completed on July 1, 2006. Since this acquisition represented a business combination of companies under common control due to a majority ownership by individuals in both the Company and Bruker Optics, this acquisition has been accounted for in a manner similar to a pooling-of-interest. As a result, transaction costs were expensed as incurred rather than being included in a purchase price allocation. During the nine months ended September 30, 2006, the Company incurred and expensed acquisition related charges totaling $5.8 million, which consisted of investment banking, legal and accounting fees, compensation earned by the special committee of the Company s Board of Directors and antitrust regulation filing fees.

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net, during the nine months ended September 30, 2006 was $3.5 million, compared to $(0.3) million during the nine months ended September 30, 2005. During the nine months ended September 30, 2006, the major components within interest and other income (expense), net, were net interest income of $0.4 million, losses on foreign currency transactions of $(1.2) million, and the appreciation of the fair value of derivative financial instruments of $3.9 million. During the nine months ended September 30, 2005, the major components within interest and other income (expense), net, were net interest income of $0.9 million, gains on foreign currency transactions of $0.7 million and the depreciation of the fair value of derivative financial instruments of $(1.9) million.

***Provision for Income Taxes***

The income tax provision for the nine months ended September 30, 2006 was $9.4 million, or an effective tax rate of 52%, compared to an income tax provision of $7.5 million for the nine months ended September 30, 2005, or an effective tax rate of 60%. Our effective tax rate reflects our tax provision for non-U.S. entities only, since no benefit was recognized for losses incurred in the U.S. We will maintain a full valuation allowance for our U.S. net operating losses until evidence exists that it is more likely than not that the loss carry forward amounts will be utilized to offset U.S. taxable income. Our tax rate may change over time as the amount or mix of income and taxes outside the U.S. changes. Our effective tax rate is calculated using our projected annual pre-tax income or loss and is affected by research and development tax credits, the expected level of other tax benefits, and the impact of changes to the valuation allowance, as well as changes in the mix of our pre-tax income and losses among jurisdictions with varying statutory tax rates and credits.

***Minority Interest in Consolidated Subsidiaries***

Minority interest in consolidated subsidiaries for the nine months ended September 30, 2006 was $75,000 compared to $131,000 in the comparable period of 2005. The minority interest in subsidiaries represents the minority shareholders proportionate share of net income of those subsidiaries for the nine months ended September 30, 2006 and 2005. For the nine months ended September 30, 2006 and 2005, the minority interest relates to our two majority-owned subsidiaries, Incoatec GmbH and Baltic Scientific Instruments Ltd.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2006, we had cash and short-term investments totaling $44.2 million, compared to $109.1 million as of December 31, 2005. On April 18, 2006, we announced that we had entered into a definitive agreement to acquire all of the stock of molecular spectroscopy company Bruker Optics for $135 million, to be paid approximately 59% in cash and 41% in our common stock. The acquisition was completed on July 1, 2006, resulting in a use of approximately $62 million of cash on hand to settle the cash component of the purchase price and acquisition related investment banking fees. In addition, on

July 5, 2006, we entered into a demand note for up to $40 million and we borrowed $20 million under the demand note to finance a portion of the Bruker Optics purchase price. On July 18, 2006, we borrowed $10 million under the demand note to finance the acquisition of KeyMaster. As of September 30, 2006, we also have approximately $56 million in outstanding debt, of which approximately $29 million is current. Based on our cash on hand subsequent to the acquisitions of Bruker Optics and KeyMaster, we believe we have sufficient cash to support our operating and investing needs for at least the next twelve months, but this depends on our profitability and our ability to manage working capital requirements. Future cash requirements could also be affected by additional future acquisitions that we may consider. Historically, we have financed our growth through a combination of debt financings and issuances of common stock. In the future, there can be no assurance that additional financing alternatives will be available to us if required, or if available, will be obtained with terms favorable to us.

During the nine months ended September 30, 2006, net cash provided by operating activities was $17.8 million, compared to net cash provided by operating activities of $29.9 million during the nine months ended September 30, 2005. The change in cash generated by operating activities was primarily attributable to improved operating results in 2006, an increase in accounts payable and customer deposits partially offset by and increase increase in trade accounts receivable and inventory balances.

During the nine months ended September 30, 2006, investing activities provided $13.7 million in cash compared to net cash used in investing activities of $3.3 million during the nine months ended September 30, 2005. Cash provided by investing activities during the nine months ended September 30, 2006 was attributable primarily to $46.5 million from the sales of short term investments offset by approximately $27.6 million used for acquisitions, net of cash acquired, and $5.0 million in capital expenditures.

In connection with our November 2005 acquisition of Roentec AG, additional consideration, in the amount of approximately $2.0 million, may be paid to Roentec s former management, employee and consultant shareholders based on the 2006 and 2007 revenue performance of Roentec. If these payments are required, they will be comprised of either, at our option, 50% our restricted stock and 50% cash, or 100% cash.

On January 17, 2006, we acquired Socabim SAS, a privately-held company focused on advanced X-ray analysis software for materials research based in Paris, France. The initial aggregate purchase price of approximately $8.8 million was paid through the issuance of 267,302 restricted shares of our common stock to Socabim s two largest shareholders, which had an aggregate value of approximately $1.3 million as of the date of issuance, and an aggregate of $7.5 million was paid to all of the Socabim selling shareholders from cash on hand. Additional cash consideration, in the amount of approximately $1.5 million in total, may be paid through 2009 based on the future performance of Socabim.

On July 18, 2006 we acquired all of the capital stock of KeyMaster Technologies, a Delaware corporation located in Kennewick, Washington. In accordance with the stock purchase agreement, we paid an aggregate of $10 million of cash consideration to the stockholders of KeyMaster, of which $1 million shall be held in escrow until the later of (x) July 18, 2007, or (y) the resolution of any indemnification claim pending as July 18, 2007.

On September 6, 2006, we acquired all of the capital stock of Quantron, a spark-OES company based in Kleve, Germany. In accordance with the stock purchase agreement, at the closing, we paid an aggregate of approximately $6.3 million of consideration to the Sellers, of which approximately $5.0 million was paid in cash and approximately $1.3 million was paid in the issuance of an aggregate of 202,223 restricted unregistered shares of our common stock, par value $0.01 per share, to Quantron s two largest shareholders. Pursuant to the earn-out provisions of the stock purchase agreement, up to an aggregate of $4.7 million of additional cash consideration may be paid through 2009 based on future performance of Quantron.

During the nine months ended September 30, 2006, financing activities used $53.2 million of cash compared to a use of $7.0 million of cash during the nine months ended September 30, 2005. The change in cash provided by financing activities in the first nine months of 2006 was due to $74.0 million paid to our shareholders in connection with the Bruker Optics acquisition offset by $19.5 million in increased proceeds from short-term borrowings.

As of September 30, 2006, we maintain revolving lines of credit totaling approximately $35.8 million with various German and Japanese banks. The German and Japanese lines of credits are unsecured. As of September 30, 2006, approximately $7.2 million was outstanding on our German and Japanese lines of credit.

In addition to our lines of credit, we have both short-term and long-term notes payable with outstanding balances

aggregating $49.2 million as of September 30, 2006. The interest rates on these obligations range from 1.80% to 8.01%. In 1999, we entered into an interest rate swap to hedge the variability of cash flows related to changes in interest rates on borrowings of variable debt obligations and pay a 4.6% fixed rate of interest and receive a variable rate of interest based on the Bond Market Association Municipal Swap Index. The interest rate swap has a notional value of $1.9 million which decreases in conjunction with the IRB payment schedule until the interest rate swap and IRB agreements terminate in December 2013.

The following table summarizes maturities for our significant financial obligations as of September 30, 2006 (in thousands):

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
|---|---|---|---|---|---|
| Short-term borrowings | $ 29,377 | $ 29,377 | $ | $ | $ |
| Long-term borrowings | 27,022 | | 18,649 | 6,415 | 1,958 |
| Pension | 9,804 | | 431 | 227 | 9,146 |
| Total contractual obligations | $ 66,203 | $ 29,377 | $ 19,080 | $ 6,642 | $ 11,104 |

In connection with some of our outstanding debt, we are required to maintain certain financial ratios and meet other financial criteria. Additionally, we are subject to a variety of restrictive covenants that require bank consent if not met. As of September 30, 2006, the latest measurement date, we were in compliance with all financial covenants.

As of September 30, 2006, we have approximately $12.7 million of net operating loss carryforwards available to reduce future U.S. taxable income. These losses have various expiration dates through 2026. We also have research and development tax credits and foreign tax credits of approximately $11.7 million available to offset future U.S. tax liabilities that expire at various dates through 2024.

**Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation sets forth a recognition threshold and valuation method to recognize and measure an income tax position taken, or expected to be taken, in a tax return. The evaluation is based on a two-step approach. The first step requires an entity to evaluate whether the tax position would more likely than not, based upon its technical merits, be sustained upon examination by the appropriate taxing authority. The second step requires the tax position to be measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In addition, previously recognized benefits from tax positions that no longer meet the new criteria would no longer be recognized. The application of this Interpretation will be considered a change in accounting principle with the cumulative effect of the change recorded to the opening balance of retained earnings in the period of adoption. This Interpretation will be effective for the Company on January 1, 2007. We are currently evaluating the Interpretation and the impact it may have on our results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* which amends SFAS No. 87 *Employers Accounting for Pensions*, SFAS No. 88 *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106 *Employers Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 132(R) *Employers Disclosures about Pensions and Other Postretirement Benefits*. This Statement requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement defined benefit plans, previously disclosed in the footnotes to the financial statements, as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position. In addition, this Statement will require disclosure of the effects of the unrecognized gains or losses, prior service costs and transition asset or obligation on the next fiscal year s net periodic benefit cost. This Statement is effective for all financial statements issued for fiscal years ending after December 15, 2006 and retrospective application of this Statement is not permitted. We are in the process of evaluating the impact the adoption of SFAS No. 158 may have on our results of operations and financial position.

**ITEM 3: Quantitative and Qualitative Disclosures About Market Risk**

We are potentially exposed to market risk associated with changes in foreign exchange and interest rates for which we

selectively use financial instruments to reduce related market risks. An instrument is treated as a hedge if it is effective in offsetting the impact of volatility in our underlying exposure. We have also entered into instruments which are not effective derivatives under the requirements of SFAS No. 133, and therefore such instruments are not designated as hedges. All transactions are authorized and executed pursuant to our policies and procedures. Analytical techniques used to manage and monitor foreign exchange and interest rate risk include market valuations and sensitivity analysis.

The Company regularly invests excess cash in overnight repurchase agreements and interest-bearing investment-grade securities that we hold for the duration of the term of the respective instrument and are subject to changes in short-term interest rates. The Company believes that the market risk arising from holding these financial instruments is minimal.

The Company s exposure to market risks associated with changes in interest rates relates primarily to the increase or decrease in the amount of interest income earned on its investment portfolio. The Company ensures the safety and preservation of invested funds by limiting default risks, market risk and reinvestment risk. The Company mitigates default risk by investing in investment grade securities. Declines in interest rates over time will, however, reduce the Company s interest income.

**Impact of Foreign Currencies**

We sell products in many countries, and a substantial portion of sales and expenses are denominated in foreign currencies, principally in the Euro and Japanese Yen. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies could adversely affect our financial results. Costs related to these sales are largely denominated in the same respective currencies, thereby limiting our transaction risk exposure. However, for sales not denominated in U.S. dollars, if there is an increase in the rate at which a foreign currency is exchanged for U.S. dollars, it will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, if we price our products in the foreign currency, we will receive less in U.S. dollars than we did before the rate increase went into effect. If we price our products in U.S. dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in our prices not being competitive in a market where business is transacted in the local currency.

We have entered into option and forward currency exchange contracts, both having maturities of less than twelve months wtih notional amounts aggregating $18.0 million and an additional $14 million extended into 2007. These contracts involve the purchase of EURO currency at fixed U.S. dollar amounts. The notional amounts of the contracts are intended to hedge receivables in U.S. dollars. These transactions do not qualify for hedge accounting under SFAS No. 133. Accordingly, the instruments are marked-to-market with the corresponding gains and losses recorded in other income (expense) in the current period.

At the end of each reporting period, we obtain third-party verification as to the fair value of these instruments. As of September 30, 2006 and 2005, the interest rate swap had a fair value of $0.0 million and an unfavorable fair value of $0.5 million, respectively. As of September 30, 2006 and 2005, the currency exchange contracts had a favorable fair value of $0.7 million and an unfavorable fair value of $1.6 million, respectively. The instruments fair market values are recorded net of each other on the balance sheet.

In connection with these instruments, we recorded a net gain of $3.9 million and a net loss of $(1.9) million during the nine months ended September 30, 2006 and 2005, respectively.

Realized foreign exchange gains (losses) were approximately $(0.1) million and $0.1 million for the three months ended September 30, 2006 and 2005, respectively and approximately $(1.2) million and $0.7 million for the nine months ended September 30, 2006 and 2005, respectively. As we continue to expand internationally, we evaluate currency risks and may enter into foreign exchange contracts on a more consistent basis or from time to time as the circumstances require to mitigate foreign currency exposure.

We have entered into foreign-denominated debt obligations. The currency effects of the debt obligations are reflected in interest and other income (expense), net, on the consolidated statement of operations. We also have foreign-denominated intercompany borrowing arrangements with our Bruker Daltonik GmbH subsidiary in Germany, our Bruker AXS GmbH subsidiary in Germany and our Bruker Nonius subsidiary in the Netherlands that affected accumulated other comprehensive income (loss). A 10% increase or decrease of the respective foreign exchange rate with our Bruker Daltonik GmbH subsidiary in Germany would result in a change in accumulated other comprehensive income (loss) of approximately $2.9 million or $(2.3) million, respectively. A 10% increase or decrease of the respective foreign exchange rate with our Bruker AXS subsidiary in Germany would result in a transaction gain (loss) of approximately $1.0 million or $(0.8) million, respectively. A 10% increase or decrease of the respective foreign exchange rate with our Bruker Nonius subsidiary in the Netherlands

would result in a change in accumulated other comprehensive income (loss) of approximately $1.1 million or $(0.9) million, respectively.

**Impact of Interest Rates**

Our exposure related to adverse movements in interest rates is derived primarily from outstanding floating rate debt instruments that are indexed to short-term market rates and cash equivalents. Our objective in managing our exposure to interest rates is to decrease the volatility that changes in interest rates might have on our earnings and cash flows. To achieve this objective, we use a fixed rate agreement to adjust a portion of our debt that is subject to variable interest rates.

In the United States, we have entered into an interest rate swap arrangement to limit the interest rate exposure on our $1.9 million industrial revenue bond to a fixed rate of 4.6%. We pay a 4.6% fixed rate of interest and receive a variable rate of interest based on the Bond Market Association Municipal Swap Index on a $1.9 million notional amount. Net interest payments or receipts are recorded as adjustments to interest expense. In addition, the instrument is recorded at fair market value on our balance sheet, and changes in the fair market value are recorded in current earnings since the arrangement is not considered an effective hedge. As of September 30, 2006, the fair value of the instrument was approximately $0.1 million, net of tax, and is recorded as a liability on the balance sheet.

In 2002, we entered into three derivative financial instruments; two cross currency interest rate swaps and an interest rate swap. The first cross currency interest rate swap is for 2.0 million Euro and secures a fixed interest rate of 1.75% per annum until January 4, 2012. The second cross currency interest rate swap is for 5.0 million Euro and we receive semiannual interest payments in EUROs based on a variable interest rate equal to the six-month EURIBOR rate in exchange for semiannual payments in Swiss francs at a fixed rate of 4.97%. The interest rate swap of 3.0 million Euro reduces the 6-month EURIBOR rate by 1.80% per annum until January 4, 2007. We entered into the financial instruments to manage our exposure to interest rates and foreign exchange risk. During the year ended December 31, 1999, we entered into an interest rate swap. By entering into this financial instrument, we obtained the right to borrow money at lower rates of interest. We continue to hold this financial instrument until we elect to exercise the option to borrow the money. Until the instrument becomes an effective hedge, it is considered speculative and is marked-to-market through interest and other income (expense), net, on the consolidated statement of operations. The change in fair value of the instrument was not material for any period presented. As of September 30, 2006, the fair value of the instrument was approximately $29,000 net of tax, and is recorded as a liability on the balance sheet.

A 10% increase or decrease in the average cost of our variable rate debt would not result in a material change in pre-tax interest expense.

**Inflation**

We do not believe inflation had a material impact on our business or operating results during any of the periods presented.

**ITEM 4: Controls and Procedures**

Our Company s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls were effective at September 30, 2006.

We maintain internal controls and procedures designed to ensure that we are able to collect the information subject to required disclosure in reports we file with the United States Securities and Exchange Commission, and to process, summarize and disclose this information within the time specified by the rules set forth by the Securities and Exchange Commission.

In the Company s Annual Report on Form 10-K for the year ended December 31, 2004, we identified and disclosed material weaknesses in our internal control over financial reporting at one significant subsidiary whose operations and financial condition were significant to our consolidated financial statements. In response to these material weaknesses identified, we took steps to strengthen our internal controls over financial reporting at this significant subsidiary which were effective in remediating these material weaknesses in 2005. The steps included evaluating the roles and functions within the significant subsidiary s accounting department and adding additional resources to support the controls surrounding inventory valuation and the financial statement close process. Temporary staff were used to perform additional procedures while management evaluated resources and systems, and permanent resources were in place by the end of the third quarter of 2005.

In addition to augmenting our accounting personnel, management determined it was necessary to automate and establish certain preventive controls through the implementation of a fully integrated Materials Resource Planning (MRP) system. Management selected an MRP system during the third quarter of 2005 and completed the implementation of the new system at the beginning of the second quarter of 2006.

There were no other changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1: Legal Proceedings**

**General**

The Company may, from time to time, be involved in legal proceedings in the ordinary course of business. The Company is not currently involved in any pending legal proceedings that, either individually or taken as a whole, are reasonably likely in management s judgment to materially harm our business, prospects, results of operations or financial condition, nor have any such legal proceedings been threatened.

**ITEM 1A: Risk Factors**

*In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.*

*This report may include forward-looking statements that involve risks and uncertainties. In addition to those risk factors discussed elsewhere in this report, we identify the following risk factors, which could affect our actual results and cause actual results to differ materially from those in the forward-looking statements.*

***If we are unable to make or complete future mergers, acquisitions or strategic alliances as a part of our growth strategy or integrate the results of any mergers, acquisitions or strategic alliances, our business development may suffer.***

Our strategy includes potentially expanding our technology base through selected mergers, acquisitions and strategic alliances. In 2005, our indirect subsidiary, Bruker AXS GmbH, acquired Roentec AG, a broad-based X-ray analysis instrumentation company based in Berlin, Germany, and our direct subsidiary, Bruker AXS, acquired the assets of the microanalysis business of Princeton Gamma-Tech Instruments, Inc., a company located in Rocky Hill, New Jersey. The acquired businesses were combined to form a new group within Bruker AXS that will focus on the X-ray microanalysis market, a market not previously addressed by Bruker AXS. In the first quarter of 2006, Bruker AXS GmbH completed its acquisition of Socabim SAS, a privately-held Paris, France based company focused on advanced X-ray materials research and analysis software. On July 1, 2006, we completed our acquisition of Bruker Optics. On July 18, 2006, Bruker AXS acquired KeyMaster, a developer and manufacturer of portable hand-held X-ray fluorescence (XRF) systems located in Kennewick, Washington. On September 6, 2006, Bruker AXS GmbH completed its acquisition of Quantron, an optical emission spectroscopy company based in Kleve, Germany.

We may seek to continue to expand our technology base through additional mergers, acquisitions and strategic alliances. If we fail to effect mergers, acquisitions and strategic alliances, our technology base may not expand as quickly and efficiently as possible. Without such complementary growth from selected mergers, acquisitions and strategic alliances, our ability to keep up with the evolving needs of the market and to meet our future performance goals could be adversely affected. However, we may not be able to find attractive candidates, or enter into mergers, acquisitions or strategic alliances on terms that are favorable to us, or successfully integrate the operations of companies that we acquire. In addition, we may compete with other companies for these merger, acquisition or strategic alliance candidates, which could make such a transaction more expensive for us. If we are able to successfully identify and complete a merger, acquisition or strategic alliance, it could involve a number of risks, including, among others:

- the difficulty of coordinating or consolidating geographically separate organizations and integrating personnel with different business backgrounds and corporate cultures;

- the difficulty of integrating previously autonomous departments in accounting and finance, sales and marketing, distribution, and administrative functions, and expanding and integrating information and management systems;

- the diversion of resources and management time;

- the potential disruption of our ongoing business; and

- the potential impairment of relationships with customers as a result of changes in management or otherwise arising out of such transactions.

If we are not able to successfully integrate acquired businesses, we may not be able to realize all of the cost savings and

other benefits that we expect to result from the transactions.

***Goodwill and other intangible assets are subject to impairment.***

As a result of the merger of Bruker Daltonics and Bruker AXS in July 2003, we recorded goodwill and other intangible assets, which must be periodically evaluated for potential impairment. In addition, the recent acquisitions of Roentec, SOCABIM, Bruker Optics, KeyMaster and Quantron and the assets of the microanalysis business of Princeton Gamma-Tech Instruments resulted in additional goodwill and other intangible assets. We assess the realizability of the goodwill and other intangible assets annually as well as whenever events or changes in circumstances indicate that the assets may be impaired. These events or circumstances generally include operating losses or a significant decline in the earnings associated with the business segment these acquisitions are reported within. Our ability to realize the value of the goodwill will depend on the future cash flows of the business segment in addition to how well we integrate the businesses.

***If we fail to maintain effective systems of internal controls, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.***

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our business and operating results could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. For example, in our Annual Report on Form 10-K, for the year ended December 31, 2004, we identified and disclosed material weaknesses in our internal control over financial reporting at one significant subsidiary whose operations and financial condition are significant to our consolidated financial statements. In response to these material weaknesses identified, we have taken steps to strengthen our internal controls over financial reporting at this significant subsidiary. These steps have included the following:

- We evaluated and continue to evaluate the roles and functions within the significant subsidiary s accounting department and added additional resources to support the controls surrounding inventory valuation and the financial statement close process. Temporary staff had been used to perform additional procedures while management evaluated resources and systems and permanent resources were in place by the end of the third quarter of 2005. Management believes that these additional resources together with the existing accounting staff will enable proper financial reporting.

- In addition to augmenting our accounting personnel, management determined it was necessary to automate and establish certain preventative controls through the implementation of a fully integrated Materials Resource Planning (MRP) system. Management selected an MRP system during the third quarter of 2005 and completed the implementation of the new system at the beginning of the second quarter of 2006.

Management believes that the above measures will address the material weaknesses described in our Annual Report on Form 10-K, for the year ended December 31, 2004, in the near and long-term. The material weaknesses identified and disclosed in the Annual Report on Form 10-K for the year ended December 31, 2004 have been remediated in 2005 (See Item 9A of the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 14, 2006, Controls and Procedures). The Audit Committee and management will continue to monitor the effectiveness of our internal controls and procedures on an ongoing basis and will take further action, as appropriate.

As part of our ongoing monitoring of internal control we may discover material weaknesses or significant deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board, or PCAOB, that require remediation. Under the PCAOB standards, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affect a company s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of a company s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Management has concluded, and our independent registered public accounting firm has attested, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Any failure to maintain improvements in the internal control over our financial reporting could cause us to fail to meet our reporting obligations. As a result, current and potential investors could lose confidence in our reported financial information, which could have a negative impact on the trading price of our stock.

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***Existing stockholders have significant influence over us.***

As of November 8, 2006, our majority stockholders, the five members of the Laukien family, owned, in the aggregate, approximately 63% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could have the effect of delaying or preventing a change in control of our Company and will make some transactions difficult or impossible to accomplish without the support of these stockholders.

**ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds**

Other than as set forth in its current reports on Form 8-K, the Company did not effect any unregistered sales of its equity securities during the three month period ended September 30, 2006.

**ITEM 3: Defaults Upon Senior Securities**

None.

**ITEM 4: Submission of Matters to a Vote of Security Holders**

None.

**ITEM 5: Other Information**

None.

**ITEM 6: Exhibits**

| | |
|---|---|
| +2.6 | Share Purchase and Transfer Agreement, dated as of September 6, 2006 by and among Bruker AXS, Quantron GmbH and the stockholders of Quantron. (1) |
| 31.1 | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1). |
| 31.2 | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1). |
| 32.1 | Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2). |

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(1) Filed herewith

(2) Furnished herewith

\+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRUKER BIOSCIENCES CORPORATION

| | | |
|---|---|---|
| Date: November 9, 2006 | By: | /s/ Frank H. Laukien, Ph.D.<br>Frank H. Laukien, Ph.D.<br>*President, Chairman, Chief Executive Officer, and Director*<br>*(Principal Executive Officer)* |
| Date: November 9, 2006 | By: | /s/ William J. Knight<br>William J. Knight<br>*Chief Financial Officer*<br>*(Principal Financial and Accounting Officer)* |

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