BRUKER BIOSCIENCES CORP
Form 10-Q
November 06, 2007

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, 2007
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 5, 2007, there were 105,490,604 shares of the Registrant s common stock outstanding.

Bruker BioSciences Corporation

Form 10-Q

For the Quarter Ended September 30, 2007

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

Bruker BioSciences Corporation

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,904	$ 52,147
Accounts receivable, net	85,840	79,604
Due from affiliated companies	6,366	9,028
Inventories	184,248	134,504
Other current assets	28,082	19,461
Total current assets	343,440	294,744
Property, plant and equipment, net	101,015	90,349
Goodwill, intangible and other assets	53,909	48,094
Total assets	$ 498,364	$ 433,187
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 21,014	$ 21,857
Accounts payable	31,102	23,102
Due to affiliated companies	7,526	5,901
Customer advances	44,345	49,461
Deferred revenue	21,790	16,661
Other current liabilities	84,672	78,146
Total current liabilities	210,449	195,128
Long-term debt	18,078	22,863
Other long-term liabilities	31,321	23,730
Commitments and contingencies (Note 14)		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, none issued or outstanding at September 30, 2007 or December 31, 2006		
Common stock, $0.01 par value, 200,000,000 shares authorized, 105,485,207 shares issued and 105,474,931 shares outstanding at September 30, 2007 and 102,561,129 shares issued and outstanding at December 31, 2006	1,047	1,020
Treasury stock, at cost, 10,276 shares and 0 shares at September 30, 2007 and December 31, 2006, respectively	(92)	
Other stockholders equity	237,561	190,446
Total shareholders equity	238,516	191,466
Total liabilities and shareholders equity	$ 498,364	$ 433,187

See the accompanying notes to financial statements.

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Bruker BioSciences Corporation

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share data)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Product revenue	$ 115,235	$ 91,928	$ 317,243	$ 264,104
Service revenue	16,217	12,684	46,169	34,970
Other revenue	191	258	421	1,135
Total revenue	131,643	104,870	363,833	300,209
Cost of product revenue	59,924	50,659	166,525	143,414
Cost of service revenue	9,886	8,028	29,816	20,633
Total cost of revenue	69,810	58,687	196,341	164,047
Gross profit	61,833	46,183	167,492	136,162
Operating expenses:				
Sales and marketing	27,057	19,063	74,909	58,795
General and administrative	8,556	7,239	24,036	20,319
Research and development	14,763	11,936	42,302	36,495
Acquisition related charges		961		5,829
Total operating expenses	50,376	39,199	141,247	121,438
Operating income	11,457	6,984	26,245	14,724
Interest and other income (expense), net	(619)	(491)	(825)	3,522
Income before income tax provision and minority interest in consolidated subsidiaries	10,838	6,493	25,420	18,246
Income tax provision	2,065	3,535	7,655	9,398
Income before minority interest in consolidated subsidiaries	8,773	2,958	17,765	8,848
Minority interest in consolidated subsidiaries	109	(18)	255	75
Net income	$ 8,664	$ 2,976	$ 17,510	$ 8,773
Net income per common share - basic	$ 0.08	$ 0.03	$ 0.17	$ 0.09
Net income per common share - diluted	$ 0.08	$ 0.03	$ 0.16	$ 0.09
Weighted average common shares outstanding:				
Basic	104,377	102,038	103,806	101,635
Diluted	106,679	102,704	106,484	102,090

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30, 2007	2006
Operating activities:		
Net cash (used in) provided by operating activities	$ (10,153)	$ 17,835
Investing activities:		
Purchases of property and equipment	(13,352)	(5,037)
Redemption of short-term investments		46,460
Acquisitions, net of cash acquired	(2,855)	(27,642)
Changes in restricted cash	(283)	(76)
Net cash (used in) provided by investing activities	(16,490)	13,705
Financing activities:		
(Repayments of) proceeds from short-term borrowings, net	(6,416)	19,521
(Repayments of) proceeds from long-term debt, net	(1,470)	899
Proceeds from issuance of common stock	18,864	418
Repurchase of common stock	(92)	
Cash payments to shareholders		(74,021)
Net cash provided by (used in) financing activities	10,886	(53,183)
Effect of exchange rate changes on cash	2,514	3,162
Net change in cash and cash equivalents	(13,243)	(18,481)
Cash and cash equivalents at beginning of period	52,147	62,632
Cash and cash equivalents at end of period	$ 38,904	$ 44,151
Non-Cash Financing Activities		
Issuance of common stock related to acquisitions	$ 269	$ 58,463

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Bruker BioSciences Corporation and its wholly-owned subsidiaries (the Company , we, us, or our) 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) technology, 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, biotechnology and proteomics companies, academic institutions, advanced materials and semiconductor industries 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, 2007 and 2006 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 was considered a business combination of companies under common control. 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 have been restated by combining the historical consolidated financial statements of the Company with those of Bruker Optics for periods prior to the acquisition.

The Company reports financial results on the basis of the following three business segments:

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

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

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

2. Public Offering of Common Stock

On February 12, 2007, the Company and a group of selling stockholders completed a public offering of 11,960,000 shares of its common stock, of which 2,530,000 were sold by the Company and 9,430,000 were sold by four selling shareholders, at $7.10 per share, generating net proceeds of approximately $16.9 million to the Company and approximately $63.2 million to the selling stockholders, in the aggregate.

3. Acquisitions

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 at historical carrying value. The acquisition of the shares of the non-affiliated shareholders (approximately 4%) was accounted for 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. The fair value of the consideration paid for the acquisition of the minority interest was approximately $5.2 million, including cash of $4.8 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 the Company 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 engaged RSM McGladrey, Inc., a third party valuation firm, to assist management in appraising the fair value of certain assets acquired. The appraisal was completed in the second quarter of 2007. The following table summarizes the 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		53,846
Other assets		72
Total assets		109,479
Current liabilities		34,488
Long-term debt		3,463
Other liabilities		2,074
Total liabilities assumed		40,025
Net assets		69,454
Minority interest percentage		4.1%
Net assets acquired		2,848
Goodwill		2,294
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 Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Accordingly, acquisition related intangibles total $2.2 million and are being amortized over four years. In addition, approximately $2.7 million of acquired intangible assets were assigned to in-process research and development projects of which the 4.1% minority interest, or approximately $0.1 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 $2.3 million of goodwill acquired from Bruker Optics in connection with the acquisition was assigned to the Company s Bruker Optics subsidiary, currently a reportable operating segment, and will not be deductible for tax purposes since the acquisition was a tax-free acquisition.

On January 1, 2007, the Company acquired all of the assets of Keca Metal Products, Ltd. (Keca), a Texas partnership located in Spring, Texas. The aggregate purchase price for Keca was $0.6 million and was funded with cash on hand. Keca provides specialized machining services, primarily to Bruker Optics. The results of Keca have been included in the Bruker Optics segment from the date of acquisition.

On June 30, 2007, the Company acquired Analys-Konsult AB (AKAB), a distributor and service provider of scientific instrumentation based in Sweden. The aggregate purchase price of AKAB was approximately $0.8 million, of which approximately $0.5 million was paid in cash and approximately $0.3 million was funded by the issuance of an aggregate of 29,740 restricted unregistered shares of the Company s common stock, par value $0.01 per share, to AKAB s shareholders. The results of AKAB have been included in the Bruker AXS segment from the date of acquisition.

Pro forma financial information reflecting the Keca or AKAB acquisitions has not been presented as the impact on revenues and net income and net income per common share would not have been material.

4. Provision for Income Taxes

The income tax provision for the three months ended September 30, 2007 was $2.1 million compared to an income tax provision of $3.5 million for the three months ended September 30, 2006, representing effective tax rates of 19.1% and 54.4%, respectively. The income tax provision for the nine months ended September 30, 2007 was $7.7 million compared to an income tax provision of $9.4 million for the nine months ended September 30, 2006, representing effective tax rates of 30.1% and 51.5%, respectively. Our effective tax rate reflects our tax provision for non-U.S. entities only, since no benefit was recognized for cumulative 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 carryforward 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.

On August 14, 2007, the German Business Tax Reform 2008 was signed by the Federal President and the legislative process was finalized on August 17, 2007 with the official publication of the law. This new legislation changes the German Federal Corporate Tax Rate from 25% to 15%. In addition, German Trade Tax is no longer deductible from the Corporate Income Tax. The Company has analyzed the impact of these changes on its deferred tax assets and liabilities as of the date of enactment. The temporary differences that will reverse after December 31, 2007 have been adjusted to reflect the new tax rate which will become effective on January 1, 2008. As a result, the Company has recorded a net reduction to income tax expense of $2.4 million in the quarter ending September 30, 2007.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). Among other things, FIN 48 provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, FIN 48 requires expanded annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. The Company adopted FIN 48 on January 1, 2007, and recorded a reduction to retained earnings of $751,000 effective January 1, 2007. The Company has unrecognized tax benefits of approximately $2.0 million as of January 1, 2007, of which $2.0 million, if recognized, would result in a reduction of the Company s effective tax rate. As of September 30, 2007, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

The Company recognizes penalties and interest related to unrecognized tax benefits in the provision for income taxes. As of September 30, 2007, approximately $518,000 of accrued interest related to uncertain tax positions was included in other current liabilities on our consolidated balance sheet, of which $51,000 and $153,000 was recorded during the three and nine months ended September 30, 2007, respectively.

The tax years 2003 to 2006 are open tax years in our major taxing jurisdictions. The Company files returns in many foreign and state jurisdictions with varying statutes of limitations.

5. 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 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 awards. 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, 333-107294 and 333-137090).

As of September 30, 2007, the Company s primary types of share-based compensation related to issuances of stock options and restricted stock. The Company recorded stock-based compensation expense for the three and nine months ended September 30, 2007 and 2006 as follows (in thousands):

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Stock options	$ 557	$ 277	$ 1,031	$ 813
Restricted stock	143	155	466	229
Total stock-based compensation, pre-tax	700	432	1,497	1,042
Tax benefit	(196)	(121)	(419)	(266)
Total stock-based compensation, net of tax	$ 504	$ 311	$ 1,078	$ 776

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 three-to-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, 2007:

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2006	628,200	$ 5.29
Granted	35,400	8.07
Vested	(129,090)	5.34
Forfeited	(5,630)	5.83
Outstanding at September 30, 2007	528,880	$ 5.45

Unrecognized pretax expense of $2.1 million related to restricted stock awards is expected to be recognized over the weighted average remaining service period of 3.6 years for awards outstanding at September 30, 2007.

The fair value of each stock 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 stock option award s expected life. The assumptions for volatility, expected life, dividend yield and risk-free interest rate are presented in the table below:

	2007	2006
Risk-free interest rate	4.52% - 4.81%	3.80%
Expected life	6.5 years	5 years
Volatility	82.0%	105.0%
Expected dividend yield	0%	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, 2007 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, 2006	3,671,425	$ 6.25		
Granted	1,247,174	7.93		
Exercised	(322,623)	5.12		
Forfeited	(45,091)	9.84		
Outstanding at September 30, 2007	4,550,885	$ 6.75	4.8	$ 11,985
Exercisable at September 30, 2007	2,653,753	$ 6.70	4.3	$ 8,236

The following table summarizes information about stock options outstanding and exercisable at September 30, 2007:

	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	732,448	4.0	$ 3.21	$ 4,097	595,454	$ 3.18	$ 3,344
$4.01 to $6.00	1,664,504	4.6	5.17	6,041	1,118,321	5.14	4,089
$6.01 to $10.00	1,625,584	7.2	7.67	1,847	411,629	6.85	803
$10.01 to $13.00	203,349	4.4	11.02		203,349	11.02	
$13.01 and above	325,000	3.6	15.64		325,000	15.64	
	4,550,885	4.8	$ 6.75	$ 11,985	2,653,753	$ 6.70	$ 8,236

The intrinsic values above are based on the Company s closing stock price of $8.80 on September 30, 2007. The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2007 was $5.88. Unrecognized pretax expense of $8.9 million related to stock options is expected to be recognized over the weighted average remaining service period of 3.0 years for awards outstanding at September 30, 2007.

6. Inventories

Inventories consisted of the following as of September 30, 2007 and December 31, 2006 (in thousands):

		September 30, 2007		December 31, 2006
Raw materials	$	55,008	$	45,361
Work in process		57,234		42,269
Demonstration units		19,294		14,678
Finished goods		52,712		32,196
Total inventories	$	184,248	$	134,504

7. Goodwill and Other Intangible Assets

The following is a summary of other intangible assets subject to amortization as of September 30, 2007 and December 31, 2006 (in thousands):

		September 30, 2007						December 31, 2006					
	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 to 5	$	6,335	$	(2,861)	$	3,474	$	6,172	$	(1,916)	$	4,256
Customer relationships	5		1,115		(455)		660		1,108		(288)		820
Trade names	5 to 10		439		(161)		278		718		(215)		503
Total amortizable intangible assets		$	7,889	$	(3,477)	$	4,412	$	7,998	$	(2,419)	$	5,579

For the three months ended September 30, 2007 and 2006, the Company recorded amortization expense of approximately $0.3 million and $0.3 million, respectively, related to other amortizable intangible assets. For the nine months ended September 30, 2007 and 2006, the Company recorded amortization expense of approximately $1.1 million and $0.6 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,		
2007 (a)	$	316

2008		1,239
2009		1,210
2010		1,088
2011		510
Thereafter		49
Total	$	4,412

(a) Amount represents estimated amortization expense for the remaining three months ending December 31, 2007.

The carrying amount of goodwill was $39.8 million as of September 30, 2007 and December 31, 2006, 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, 2006 and determined that goodwill was not impaired at that time.

8. 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, 2007 were as follows (in thousands):

Warranty accrual at December 31, 2006	$	13,274
Accruals for warranties issued during the period		8,593
Settlements of warranty claims		(8,475)
Foreign currency impact		789
Warranty accrual at September 30, 2007	$	14,181

9. Line of Credit

On July 5, 2006, the Company issued a demand promissory note for a $40 million line of credit in the United States. On September 28, 2007, the demand promissory note was increased to $75 million. As of September 30, 2007, the line of credit was fully available. 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 a 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.

10. 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, 2007 and 2006 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Components of net periodic pension benefit cost								
Service cost	$	278	$	177	$	837	$	522
Interest cost		127		98		380		290
Amortization		(4)		(4)		(12)		(12)
Net periodic benefit cost	$	401	$	271	$	1,205	$	800

To date, the Company has not funded the defined benefit plan and is not required to make contributions during the remainder of 2007.

11. 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. Restricted stock is not included in the calculation of basic EPS until the time-based restriction has lapsed. Except where the result would be antidilutive, the diluted earnings per share computation includes the effect of potential shares, shares which would be issuable upon the exercise of outstanding stock options or outstanding restricted stock issuable when the restrictions lapse, 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, 2007 and 2006 (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net income, as reported	$ 8,664	$ 2,976	$ 17,510	$ 8,773
Weighted average shares outstanding:				
Weighted average shares outstanding - basic	104,377	102,038	103,806	101,635
Effect of dilutive securities:				
Stock options and restricted stock	2,302	666	2,678	455
Weighted average shares outstanding - diluted	106,679	102,704	106,484	102,090
Net income per share - basic	$ 0.08	$ 0.03	$ 0.17	$ 0.09
Net income per share - diluted	$ 0.08	$ 0.03	$ 0.16	$ 0.09

The total anti-diluted shares outstanding for the nine months ended September 30, 2007 and 2006 were 640,000 and 1,027,000, respectively.

12. 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, 2007 and 2006 (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest income	$ 235	$ 294	$ 909	$ 1,939
Interest expense	(386)	(762)	(1,294)	(1,556)
Exchange losses on foreign currency transactions	(1,078)	(68)	(1,680)	(1,165)
Appreciation of the fair value of derivative financial instruments	179	118	759	3,893
Other	431	(73)	481	411
Interest and other income (expense), net	$ (619)	$ (491)	$ (825)	$ 3,522

13. Comprehensive Income

Comprehensive income 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, 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 for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net income	$ 8,664	$ 2,976	$ 17,510	$ 8,773
Foreign currency translation adjustments	7,252	(249)	9,950	8,265
Total comprehensive income	$ 15,916	$ 2,727	$ 27,460	$ 17,038

14. 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.

15. Letters of Credit and Guarantees

As of September 30, 2007 and December 31, 2006, the Company had bank guarantees of $11.6 million and $9.1 million, respectively, for its customer advances. These bank guarantees affect the availability of the Company s lines of credit.

16. 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. The Company reports financial results on the basis of three reportable segments: Bruker AXS, Bruker Daltonics and Bruker Optics. Bruker AXS manufactures and distributes advanced X-ray instrumentation and spark-OES instrumentation used in non-destructive molecular and elemental analysis in academic, research and industrial applications. Bruker Daltonics manufactures and distributes mass spectrometry instruments that can be integrated and used with other analytical instruments. 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 AXS, Bruker Daltonics 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, 2007 and 2006 is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Bruker AXS	$ 59,969	$ 47,015	$ 165,212	$ 123,985
Bruker Daltonics	46,486	36,301	126,176	113,660
Bruker Optics	28,682	24,517	80,705	69,373
Eliminations (a)	(3,494)	(2,963)	(8,260)	(6,809)
Total	$ 131,643	$ 104,870	$	