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.

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Bruker BioSciences Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 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.

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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.

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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.

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, 2006	2005	Nine Months Ended September 30, 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:

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Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Contractual Term (Yrs)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($ s in 000 s)	Options Exercisable 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.

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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&n