

BRUKER BIOSCIENCES CORP
Form 10-Q
November 06, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

**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

Brucker BioSciences Corporation

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-3110160
(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)

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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 No

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 Accelerated filer Non-accelerated filer

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

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

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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 stockholders' equity | 238,516 | 191,466 |
| Total liabilities and stockholders' equity | \$ 498,364 | \$ 433,187 |

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 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

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\$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.

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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).

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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, | | Nine months ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2006 | 2007 | 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

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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:

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| Range of Exercise Prices | Number Outstanding | Options Outstanding | | | Options Exercisable | | | |
|--------------------------|--------------------|---|---------------------------------|---|---------------------|---------------------------------|---|--|
| | | 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 | |

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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):

| | Useful Lives in Years | September 30, 2007 | | Net Carrying Amount | December 31, 2006 | | |
|---|-----------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | | 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 |

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| | | |
|------------|----|-------|
| 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):

| Components of net periodic pension benefit cost | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| 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):

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2007 | 2006 | 2007 | 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, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2007 | 2006 | 2007 | 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, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2007 | 2006 | 2007 | 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 | \$ 363,833 | \$ 300,209 |
| Operating income (loss): | | | | |
| Bruker AXS | \$ 6,164 | \$ 2,836 | \$ 14,444 | \$ 5,496 |
| Bruker Daltonics | 2,885 | 1,242 | 4,167 | 5,707 |
| Bruker Optics | 4,311 | 5,083 | 11,816 | 9,526 |
| Eliminations (a) | (185) | 459 | (203) | 100 |
| Corporate | (1,718) | (2,636) | (3,979) | (6,105) |
| Total | \$ 11,457 | \$ 6,984 | \$ 26,245 | \$ 14,724 |

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

17. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, Including an amendment of FASB Statement No. 115* (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective as of the beginning of fiscal 2008. The Company has not yet assessed the effect, if any, that adoption of SFAS 159 will have on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 provides a common fair value hierarchy for companies to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such fair value measurements were developed. SFAS 157 clarifies the principle that fair value should be based on the assumptions that the marketplace would use when pricing an asset or liability, rather than company specific data. The Company is currently assessing the impact that SFAS 157 will 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, 2006.

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, 2006.

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, 2007 compared to the three and nine months ended September 30, 2006.

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

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) technologies, 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 report financial results on the basis of three reportable segments: Bruker AXS, Bruker Daltonics and Bruker Optics.

Bruker AXS primarily engages in the business of manufacturing and distributing advanced instrumentation and automated solutions based on X-ray and spark-OES technologies 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 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 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 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 improvements to our gross profit margins over time and increased leverage on our operating expenses, are expected to enhance our operating margins and improve our earnings in the future.

For the nine months ended September 30, 2007, our revenues grew by 21% to \$363.8 million, with acquisitions contributing approximately 3% and foreign exchange rate changes contributing approximately 5% of this growth. We continue to focus on improving our profitability and our gross profit margins improved from 45.1% during the nine months ended

September 30, 2006 to 46.0% for the nine months ended September 30, 2007, reflecting volume leverage, contributions from our recently integrated acquisitions and improvements realized from ongoing gross profit margin improvement programs. We continue to invest in incremental sales and marketing initiatives, primarily headcount increases, which has resulted in our sales and marketing expenses as a percentage of product and service revenue increasing year-over-year. We expect these investments to result in increased revenues in future periods. Our increased revenues did enable us to leverage both general and administrative and research and development expenses as a percentage of revenue during the nine months ended September 30, 2007 compared to the comparable period in 2006.

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 and income taxes. 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 generally 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. We record grant revenue from government contracts by deferring any up-front payments received and recording the revenue for research and development activities systematically over the life of the contract as the services are provided.

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, 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 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 and would result 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, 2007 compared to the three months ended September 30, 2006

Revenue

The following table presents revenue, change in revenue and revenue growth by reportable segment for the three months ended September 30, 2007 and 2006 (dollars in thousands):

| | 2007 | 2006 | \$ Change | Percentage Change |
|------------------|------------|------------|-----------|-------------------|
| Bruker AXS | \$ 59,969 | \$ 47,015 | \$ 12,954 | 27.6% |
| Bruker Daltonics | 46,486 | 36,301 | 10,185 | 28.1% |
| Bruker Optics | 28,682 | 24,517 | 4,165 | 17.0% |
| Eliminations (a) | (3,494) | (2,963) | (531) | |
| Total Revenue | \$ 131,643 | \$ 104,870 | \$ 26,773 | 25.5% |

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

Bruker AXS revenue increased by \$13.0 million, or 27.6%, to \$60.0 million for the three months ended September 30, 2007 compared to \$47.0 million for the comparable period in 2006. Included in this change in revenue is approximately \$2.2 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 22.9%. The increase in revenue is attributable to an increase in x-ray diffraction and x-ray fluorescence system sales, to higher other system revenue and aftermarket revenue, and to the businesses acquired in the second half of 2006, which represented approximately 5% of the revenue growth. Other system revenue relates primarily to the distribution of products not manufactured by Bruker AXS. X-ray systems, other system and aftermarket revenue as a percentage of Bruker AXS product and service revenue were as follows during the three months ended September 30, 2007 and 2006 (dollars in thousands):

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| | 2007 | | 2006 | |
|-----------------------------------|-----------|---|-----------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| X-Ray Systems | \$ 41,065 | 68.5% | \$ 32,129 | 68.4% |
| Other System Revenue | 4,540 | 7.6% | 3,534 | 7.5% |
| Bruker AXS Aftermarket | 14,364 | 23.9% | 11,352 | 24.1% |
| Total Product and Service Revenue | \$ 59,969 | 100% | \$ 47,015 | 100% |

Bruker Daltonics revenue increased by \$10.2 million, or 28.1%, to \$46.5 million for the three months ended September 30, 2007 compared to \$36.3 million for the comparable period in 2006. Included in this change in revenue is approximately \$2.2 million from the impact of foreign exchange. Excluding the effect of the foreign exchange benefit, revenue increased by 21.9%. The increase in revenue excluding the effect of foreign exchange is a result of an increase in direct life science system sales, CBRN detection systems and aftermarket revenue, partially offset by reduced OEM sales for certain life science systems year-over-year. Aftermarket revenues include accessory sales, consumables, training and services. Included in other revenue during the three months ended September 30, 2007 and 2006 are grant revenues for early-stage research and development projects funded by the German government. 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 30, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|------------------------------|-----------|---|-----------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Life Science Systems | \$ 31,244 | 67.5% | \$ 26,381 | 73.2% |
| CBRN Detection Systems | 5,328 | 11.5% | 2,175 | 6.0% |
| Bruker Daltonics Aftermarket | 9,723 | 21.0% | 7,487 | 20.8% |
| Product and Service Revenue | 46,295 | 100% | 36,043 | 100% |
| Grant Revenue | 191 | | 258 | |
| Total Revenue | \$ 46,486 | | \$ 36,301 | |

Bruker Optics revenue increased by \$4.2 million, or 17.0%, to \$28.7 million for the three months ended September 30, 2007 compared to \$24.5 million for the comparable period in 2006. Included in this change in revenue is approximately \$1.3 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 11.9%. The increase in revenue excluding the effect of foreign exchange is primarily due to higher sales of molecular spectroscopy systems year-over-year, partially offset by reduced revenues associated with our order with the Chinese State Food and Drug Administration. For the three months ended September 30, 2007, we recognized \$0.8 million in revenue from our order with the Chinese State Food and Drug Administration, compared to \$2.4 million in revenue from this order in the same period in 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. Molecular spectroscopy systems, other system and aftermarket revenue as a percentage of Bruker Optics product and service revenue were as follows during the three months ended September 30, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|-----------------------------------|-----------|---|-----------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Molecular Spectroscopy Systems | \$ 22,047 | 76.9% | \$ 18,694 | 76.2% |
| Other System Revenue | 1,723 | 6.0% | 1,524 | 6.3% |
| Bruker Optics Aftermarket | 4,912 | 17.1% | 4,299 | 17.5% |
| Total Product and Service Revenue | \$ 28,682 | 100% | \$ 24,517 | 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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|------------------|-----------------|---------------------|-----------------|---------------------|
| | Cost of Revenue | Gross Profit Margin | Cost of Revenue | Gross Profit Margin |
| Bruker AXS | \$ 32,294 | 46.2% | \$ 28,944 | 38.5% |
| Bruker Daltonics | 26,425 | 42.9% | 21,441 | 40.5% |
| Bruker Optics | 14,295 | 50.1% | 11,244 | 54.0% |
| Eliminations (a) | (3,204) | | (2,942) | |

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| | | | | | | |
|-----------------------|----|--------|-------|----|--------|-------|
| Total Cost of Revenue | \$ | 69,810 | 46.9% | \$ | 58,687 | 43.9% |
|-----------------------|----|--------|-------|----|--------|-------|

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

Bruker AXS cost of product and service revenue for the three months ended September 30, 2007 was \$32.3 million, resulting in a gross profit margin of 46.2%, compared to cost of product and service revenue of \$28.9 million, or a gross profit margin of 38.5%, for the comparable period in 2006. The increase in gross profit margin is primarily attributable to better capacity utilization as a result of increased revenues year-over-year and the realization of benefits from various ongoing gross profit margin improvement programs, partially offset by lower gross profit margins realized on other system revenues.

Bruker Daltonics cost of product and service revenue for the three months ended September 30, 2007 was \$26.4 million, resulting in a gross profit margin of 42.9%, compared to cost of product and service revenue of \$21.4 million, or a gross profit margin of 40.5%, for the comparable period in 2006. The increase in gross profit margin is primarily attributable to increased sales of our CBRN detection systems, and a decrease in OEM life science system sales, which typically have lower margins than direct life science

system sales.

Bruker Optics cost of product and service revenue for the three months ended September 30, 2007 was \$14.3 million, resulting in a gross profit margin of 50.1%, compared to cost of product and service revenue of \$11.2 million, or a gross profit margin of 54.0%, for the comparable period in 2006. The decrease in gross profit margin is primarily attributable to reduced revenues from our order with the Chinese State Food and Drug Administration.

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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|---------------------------|---------------------|---|---------------------|---|
| | Sales and Marketing | Percentage of Segment Product and Service Revenue | Sales and Marketing | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 11,945 | 19.9% | \$ 7,956 | 16.9% |
| Bruker Daltonics | 8,270 | 17.9% | 5,795 | 16.1% |
| Bruker Optics | 6,842 | 23.9% | 5,312 | 21.7% |
| Total Sales and Marketing | \$ 27,057 | 20.6% | \$ 19,063 | 18.2% |

Bruker AXS sales and marketing expense for the three months ended September 30, 2007 increased to \$11.9 million, or 19.9% of product and service revenue, from \$8.0 million, or 16.9% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is primarily attributable to increased headcount related to the acquisitions completed during the second half of 2006 and higher commissions on increased revenues from our core business year-over-year.

Bruker Daltonics sales and marketing expense for the three months ended September 30, 2007 increased to \$8.3 million, or 17.9% of product and service revenue, from \$5.8 million, or 16.1% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is attributable to incremental investments in various sales and marketing initiatives, primarily related to an increase in field sales personnel, product specialists and applications resources.

Bruker Optics sales and marketing expense for the three months ended September 30, 2007 increased to \$6.8 million, or 23.9% of product and service revenue, from \$5.3 million, or 21.7% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is primarily attributable to higher commissions on increased revenues and new order bookings year-over-year, particularly in our Asia-Pacific operations.

General and Administrative

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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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|----------------------------------|-------------------------------|---|-------------------------------|---|
| | General and Administrative | Percentage of Segment Product and Service Revenue | General and Administrative | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 3,846 | 6.4% | \$ 3,309 | 7.0% |
| Bruker Daltonics | 2,285 | 4.9% | 2,048 | 5.7% |
| Bruker Optics | 1,407 | 4.9% | 1,104 | 4.5% |
| Corporate | 1,018 | | 778 | |
| Total General and Administrative | \$ 8,556 | 6.5% | \$ 7,239 | 6.9% |

Bruker AXS general and administrative expenses for the three months ended September 30, 2007 increased to \$3.8 million, or 6.4% of product and service revenue, from \$3.3 million, or 7.0% of product and service revenue for the comparable period in 2006. The increase in general and administrative expenses is primarily due to modest increases in headcount to support increased business activities and to intangible asset amortization associated with the acquisitions completed during the second half of 2006.

Bruker Daltonics general and administrative expense for the three months ended September 30, 2007 increased to \$2.3 million, or 4.9% of product and service revenue, from \$2.0 million, or 5.7% of product and service revenue for the comparable

period of 2006. The increase in general and administrative expenses is primarily attributable to changes in foreign currencies year-over-year.

Bruker Optics' general and administrative expenses for the three months ended September 30, 2007 increased to \$1.4 million, or 4.9% of product and service revenue, from \$1.1 million, or 4.5% of product and service revenue for the comparable period of 2006. The increase in general and administrative expenses is primarily attributable to modest headcount increases and to changes in foreign currencies year-over-year, primarily the Euro.

Corporate general and administrative expense for the three months ended September 30, 2007 increased to \$1.0 million from \$0.8 million for the comparable period of 2006. The increase is primarily attributable to increased business development activities. Corporate general and administrative expense represents expenses associated with being a public company not allocated to our reportable segments, including legal fees, audit and consulting fees, salaries and filing fees.

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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|--------------------------------|--------------------------|---|--------------------------|---|
| | Research and Development | Percentage of Segment Product and Service Revenue | Research and Development | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 5,901 | 9.8% | \$ 4,100 | 8.7% |
| Bruker Daltonics | 6,824 | 14.7% | 5,921 | 16.4% |
| Bruker Optics | 2,038 | 7.1% | 1,915 | 7.8% |
| Total Research and Development | \$ 14,763 | 11.2% | \$ 11,936 | 11.4% |

Bruker AXS' research and development expense for the three months ended September 30, 2007 increased to \$5.9 million, or 9.8% of product and service revenue, from \$4.1 million, or 8.7% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to an increase in materials purchases and an increase in headcount resulting from the acquisitions completed during the second half of 2006.

Bruker Daltonics' research and development expense for the three months ended September 30, 2007 increased to \$6.8 million, or 14.7% of product and service revenue, from \$5.9 million, or 16.4% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to an increase in materials purchases and to changes in foreign currencies year-over-year, primarily the Euro, as a majority of research and development is performed in Germany.

Bruker Optics' research and development expense for the three months ended September 30, 2007 increased to \$2.0 million, or 7.1% of product and service revenue, from \$1.9 million, or 7.8% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to changes in foreign currencies year-over-year, primarily the Euro, as a majority of research and development is performed in Germany, partially offset by a decrease in materials purchases.

Acquisition Related Charges

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. The acquisition of Bruker Optics was approved by our shareholders on June 29, 2006 and was subsequently completed on July 1, 2006. This acquisition represented a business combination of companies under common control due to a majority ownership by individuals of both Bruker BioSciences and Bruker Optics and, as a result, transaction costs have been expensed as incurred rather than being included in the purchase price allocation. During the third quarter of 2006, we incurred acquisition related charges totaling \$1.0 million, which consisted 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, 2007 was \$(0.6) million, compared to \$(0.5) million during the three months ended September 30, 2006. During the three months ended September 30, 2007, the major components within interest and other income (expense), net, were net interest expense of \$(0.2) million, losses on foreign currency transactions of \$(1.1) million and the appreciation of the fair value of derivative financial instruments of \$0.2 million. 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.

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 lower effective tax rate in the third quarter of 2007 compared to the third quarter of 2006 was primarily due to new tax legislation in Germany enacted in the third quarter of 2007. 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. 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, 2007 was \$0.1 million compared to \$(18,000) in the comparable period of 2006. The minority interest in subsidiaries represents the minority shareholders' proportionate share of net income of those subsidiaries for the three months ended September 30, 2007 and 2006. For the three months ended September 30, 2007 and 2006, the minority interest relates to our two majority-owned subsidiaries, Incoatec GmbH and Bruker Baltic Ltd.

Nine months ended September 30, 2007 compared to the nine months ended September 30, 2006**Revenue**

The following table presents revenue, change in revenue and revenue growth by reportable segment for the nine months ended September 30, 2007 and 2006 (dollars in thousands):

| | 2007 | 2006 | \$ Change | Percentage Change |
|------------------|------------|------------|-----------|-------------------|
| Bruker AXS | \$ 165,212 | \$ 123,985 | \$ 41,227 | 33.3% |
| Bruker Daltonics | 126,176 | 113,660 | 12,516 | 11.0% |
| Bruker Optics | 80,705 | 69,373 | 11,332 | 16.3% |
| Eliminations (a) | (8,260) | (6,809) | (1,451) | |
| Total Revenue | \$ 363,833 | \$ 300,209 | \$ 63,624 | 21.2% |

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

Bruker AXS revenue increased by \$41.2 million, or 33.3%, to \$165.2 million for the nine months ended September 30, 2007 compared to \$124.0 million for the comparable period in 2006. Included in this change in revenue is approximately \$6.0 million from the impact of foreign

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exchange. Excluding the effect of foreign exchange, revenue increased by 28.4%. The increase in revenue is attributable to an increase in x-ray diffraction and x-ray fluorescence system sales, to higher other system revenue and higher aftermarket revenue, and to the businesses acquired in the second half of 2006, which represented approximately 8% of the revenue growth. Other system revenue relates primarily to the distribution of products not manufactured by Bruker AXS. X-ray systems, other system and aftermarket revenue as a percentage of Bruker AXS product and service revenue were as follows during the nine months ended September 30, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|-----------------------------------|------------|---|------------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| X-Ray Systems | \$ 111,518 | 67.5% | \$ 83,405 | 67.3% |
| Other System Revenue | 13,965 | 8.5% | 6,221 | 5.0% |
| Bruker AXS Aftermarket | 39,729 | 24.0% | 34,359 | 27.7% |
| Total Product and Service Revenue | \$ 165,212 | 100% | \$ 123,985 | 100% |

Bruker Daltonics revenue increased by \$12.5 million, or 11.0%, to \$126.2 million for the nine months ended September 30, 2007 compared to \$113.7 million for the comparable period in 2006. Included in this change in revenue is approximately \$6.1 million from the impact of foreign exchange. Excluding the effect of the foreign exchange benefit, revenue increased by 5.7%. The increase in revenue excluding the effect of foreign exchange is a result of increased direct sales of life science systems, CBRN detection systems, and aftermarket revenue year-over-year, partially offset by reduced OEM sales for certain life

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science systems and substantially reduced grant revenue. Aftermarket revenues include accessory sales, consumables, training and services. Included in other revenue during the nine months ended September 30, 2007 and 2006 are grant revenues for early-stage research and development projects funded by the German government. 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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|------------------------------|------------|---|------------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Life Science Systems | \$ 86,517 | 68.8% | \$ 85,982 | 76.4% |
| CBRN Detection Systems | 12,986 | 10.3% | 5,591 | 5.0% |
| Bruker Daltonics Aftermarket | 26,252 | 20.9% | 20,952 | 18.6% |
| Product and Service Revenue | 125,755 | 100% | 112,525 | 100% |
| Grant Revenue | 421 | | 1,135 | |
| Total Revenue | \$ 126,176 | | \$ 113,660 | |

Bruker Optics' revenue increased by \$11.3 million, or 16.3%, to \$80.7 million for the nine months ended September 30, 2007 compared to \$69.4 million for the comparable period in 2006. Included in this change in revenue is approximately \$3.3 million from the impact of foreign exchange. Excluding the effect of foreign exchange, revenue increased by 11.6%. The increase in revenue excluding the effect of foreign exchange is due to higher sales of molecular spectroscopy systems year-over-year and higher aftermarket sales, partially offset by reduced revenues associated with our order with the Chinese State Food and Drug Administration. For the nine months ended September 30, 2007, we recognized \$4.9 million in revenue from our order with the Chinese State Food and Drug Administration compared to \$6.1 million in revenues from this order in the same period in 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. Molecular spectroscopy systems, other system and aftermarket revenue as a percentage of Bruker Optics' product and service revenue were as follows during the nine months ended September 30, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|-----------------------------------|-----------|---|-----------|---|
| | Revenue | Percentage of Segment Product and Service Revenue | Revenue | Percentage of Segment Product and Service Revenue |
| Molecular Spectroscopy Systems | \$ 61,386 | 76.1% | \$ 52,396 | 75.5% |
| Other System Revenue | 5,447 | 6.7% | 5,467 | 7.9% |
| Bruker Optics Aftermarket | 13,872 | 17.2% | 11,510 | 16.6% |
| Total Product and Service Revenue | \$ 80,705 | 100% | \$ 69,373 | 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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|------------------|-----------------|---------------------|-----------------|---------------------|
| | Cost of Revenue | Gross Profit Margin | Cost of Revenue | Gross Profit Margin |
| Bruker AXS | \$ 90,818 | 45.0% | \$ 72,100 | 41.8% |
| Bruker Daltonics | 73,167 | 41.8% | 65,795 | 41.5% |

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| | | | | |
|-----------------------|------------|-------|------------|-------|
| Bruker Optics | 40,086 | 50.2% | 33,325 | 51.9% |
| Eliminations (a) | (7,730) | | (7,173) | |
| Total Cost of Revenue | \$ 196,341 | 46.0% | \$ 164,047 | 45.1% |

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

Bruker AXS cost of product and service revenue for the nine months ended September 30, 2007 was \$90.8 million, resulting in a gross profit margin of 45.0%, compared to cost of product and service revenue of \$72.1 million, or a gross profit margin of 41.8%, for the comparable period in 2006. The increase in gross profit margin is primarily attributable to better capacity utilization as a result of increased revenues year-over-year, the higher margin businesses acquired in the second half of 2006 and the realization of benefits from various ongoing gross profit margin improvement programs, partially offset by lower gross profit margins realized on other system revenues.

Bruker Daltonics' cost of product and service revenue for the nine months ended September 30, 2007 was \$73.2 million, resulting in a gross profit margin of 41.8%, compared to cost of product and service revenue of \$65.8 million, or a gross profit margin of 41.5%, for the comparable period in 2006. The increase in gross profit margin is primarily attributable to increased sales of our CBRN detection systems, and a decrease in OEM life science system sales, which typically have lower margins than direct life science system sales.

Bruker Optics' cost of product and service revenue for the nine months ended September 30, 2007 was \$40.1 million, resulting in a gross profit margin of 50.2%, compared to cost of product and service revenue of \$33.3 million, or a gross profit margin of 51.9%, for the comparable period in 2006. The decrease in gross profit margin is primarily attributable to reduced revenues from our order with the Chinese State Food and Drug Administration and a change in product mix year-over-year within the molecular spectroscopy systems, specifically lower sales of FT-NIR systems 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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|---------------------------|---------------------|---|---------------------|---|
| | Sales and Marketing | Percentage of Segment Product and Service Revenue | Sales and Marketing | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 33,173 | 20.1% | \$ 24,448 | 19.7% |
| Bruker Daltonics | 22,743 | 18.1% | 18,702 | 16.6% |
| Bruker Optics | 18,993 | 23.5% | 15,645 | 22.6% |
| Total Sales and Marketing | \$ 74,909 | 20.6% | \$ 58,795 | 19.7% |

Bruker AXS' sales and marketing expense for the nine months ended September 30, 2007 increased to \$33.2 million, or 20.1% of product and service revenue, from \$24.4 million, or 19.7% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is primarily attributable to increased headcount related to the acquisitions completed during the second half of 2006 and higher commissions on increased revenues and new order bookings year-over-year.

Bruker Daltonics' sales and marketing expense for the nine months ended September 30, 2007 increased to \$22.7 million, or 18.1% of product and service revenue, from \$18.7 million, or 16.6% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is attributable to incremental investments in various sales and marketing initiatives, primarily related to an increase in product specialists, direct sales, inside sales and applications resources.

Bruker Optics' sales and marketing expense for the nine months ended September 30, 2007 increased to \$19.0 million, or 23.5% of product and service revenue, from \$15.6 million, or 22.6% of product and service revenue for the comparable period in 2006. The increase in sales and marketing expense is primarily attributable to higher commissions on increased revenues and new order bookings year-over-year, particularly in our Asia-Pacific operations.

General and Administrative

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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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|----------------------------------|-------------------------------|---|-------------------------------|---|
| | General and Administrative | Percentage of Segment Product and Service Revenue | General and Administrative | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 10,690 | 6.5% | \$ 9,514 | 7.7% |
| Bruker Daltonics | 6,615 | 5.3% | 5,588 | 5.0% |
| Bruker Optics | 4,249 | 5.3% | 3,036 | 4.4% |
| Corporate | 2,482 | | 2,181 | |
| Total General and Administrative | \$ 24,036 | 6.6% | \$ 20,319 | 6.8% |

Bruker AXS general and administrative expenses for the nine months ended September 30, 2007 increased to \$10.7 million, or 6.5% of product and service revenue, from \$9.5 million, or 7.7% of product and service revenue for the comparable period in 2006. The increase in general and administrative expenses is primarily due to intangible asset amortization associated with the acquisitions completed during the second half of 2006, increased headcount and to external tax consulting fees incurred in the second quarter of 2007.

Bruker Daltonics general and administrative expense for the nine months ended September 30, 2007 increased to \$6.6 million, or 5.3% of product and service revenue, from \$5.6 million, or 5.0% of product and service revenue for the comparable period of 2006. The increase in general and administrative expenses is primarily attributable to external tax consulting fees incurred in the second quarter of 2007 and lower general and administrative expenses in 2006 which resulted from the collection of accounts receivable balances which previously had been written-off.

Bruker Optics general and administrative expenses for the nine months ended September 30, 2007 increased to \$4.2 million, or 5.3% of product and service revenue, from \$3.0 million, or 4.4% of product and service revenue for the comparable period of 2006. The increase in general and administrative expenses is primarily attributable to the allocated corporate general and administrative expenses associated with being part of a public company and external tax consulting fees incurred in the second quarter of 2007.

Corporate general and administrative expense for the nine months ended September 30, 2007 increased to \$2.5 million from \$2.2 million for the comparable period of 2006. The increase is primarily attributable to increased business development activities. Corporate general and administrative expense represents expenses associated with being a public company not allocated to our reportable segments, including legal fees, audit and consulting fees, salaries and filing fees.

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, 2007 and 2006 (dollars in thousands):

| | 2007 | | 2006 | |
|--------------------------------|--------------------------|---|--------------------------|---|
| | Research and Development | Percentage of Segment Product and Service Revenue | Research and Development | Percentage of Segment Product and Service Revenue |
| Bruker AXS | \$ 16,371 | 9.9% | \$ 12,727 | 10.3% |
| Bruker Daltonics | 19,920 | 15.8% | 18,287 | 16.3% |
| Bruker Optics | 6,011 | 7.4% | 5,481 | 7.9% |
| Total Research and Development | \$ 42,302 | 11.6% | \$ 36,495 | 12.2% |

Bruker AXS research and development expense for the nine months ended June 30, 2007 increased to \$16.4 million, or 9.9% of product and service revenue, from \$12.7 million, or 10.3% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to an increase in headcount resulting from the acquisitions completed during the second half of 2006 and increased materials purchases.

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Bruker Daltonics' research and development expense for the nine months ended September 30, 2007 increased to \$19.9 million, or 15.8% of product and service revenue, from \$18.3 million, or 16.3% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to changes in foreign currencies year-over-year, primarily the Euro, as a majority of research and development is performed in Germany and increased materials purchases.

Bruker Optics' research and development expense for the nine months ended September 30, 2007 increased to \$6.0 million, or 7.4% of product and service revenue, from \$5.5 million, or 7.9% of product and service revenue for the comparable period in 2006. The increase in research and development expense is primarily attributable to changes in foreign currencies year-over-year, primarily the Euro, as a majority of research and development is performed in Germany.

Acquisition Related Charges

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. The acquisition of Bruker Optics was approved by our shareholders on June 29, 2006 and was subsequently completed on July 1, 2006. This acquisition represented a business combination of companies under common control due to a majority ownership by individuals of both Bruker BioSciences and Bruker Optics and, as a result, transaction costs have been expensed as incurred rather than being included in a purchase price allocation. During the nine months ended September 30, 2006, we incurred acquisition related charges totaling \$5.8 million, which consisted of investment banking, legal and accounting fees, compensation earned by the special committee of our 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, 2007 was \$(0.8) million, compared to \$3.5 million during the nine months ended September 30, 2006. During the nine months ended September 30, 2007, the major components within interest and other income (expense), net, were net interest expense of \$(0.4) million, losses on foreign currency transactions of \$(1.7) million and the appreciation of the fair value of derivative financial instruments of \$0.8 million. 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.

Provision for Income Taxes

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. The lower effective tax rate in the first nine months of 2007 compared to the first nine months of 2006 was primarily due to new legislation in Germany. 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. 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, 2007 was \$0.3 million compared to \$0.1 million in the comparable period of 2006. The minority interest in subsidiaries represents the minority shareholders' proportionate share of net income of those subsidiaries for the nine months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007 and 2006, the minority interest relates to our two majority-owned subsidiaries, Incoatec GmbH and Bruker Baltic Ltd.

LIQUIDITY AND CAPITAL RESOURCES

We currently anticipate that our existing cash will be sufficient 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 potential acquisitions that we may consider. Historically, we have financed our growth through a combination of debt financings and issuances of common stock. Most recently, on February 12, 2007, we and a group of selling stockholders completed a public offering which generated net proceeds of approximately \$16.9 million to us. 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, 2007, net cash used by operating activities was \$10.2 million, compared to net cash provided by operating activities of \$17.8 million during the nine months ended September 30, 2006. The change in cash from operating activities was primarily attributable to an increase in inventory balances and a decrease in customer deposits, partially offset by improved operating results year-over-year and increases in accounts payable, deferred revenue and income taxes payable.

During the nine months ended September 30, 2007, investing activities used \$16.5 million in cash compared to net cash provided by investing activities of \$13.7 million during the nine months ended September 30, 2006. Cash used by investing activities during the nine months ended September 30, 2007 was attributable primarily to \$13.3 million in capital expenditures and \$2.9 million used for acquisitions, net of cash acquired. Cash provided by investing activities during the nine months ended September 30, 2006 was attributable primarily to approximately \$46.5 million from the redemption of short-term investments offset by \$27.6 million used for acquisitions, net of cash acquired, and \$5.0 million in capital expenditures.

In connection with our acquisition of Roentec AG, additional consideration, in the amount of approximately \$2.0 million,

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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 common stock and 50% cash, or 100% cash. For 2006, approximately \$1.3 million in cash was paid in March 2007 to Roentec's former shareholders.

In January 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. For 2006, approximately \$356,000 in cash was paid in 2007 to Socabim's former shareholders.

In September 2006, we acquired all of the capital stock of Quantron GmbH, 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 through 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 the future performance of Quantron. At September 30, 2007, no additional cash consideration has been paid.

In January 2007, we 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.

In June 2007, we acquired all of the capital stock of 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 paid through the issuance of an aggregate of 29,740 restricted unregistered shares of our common stock to AKAB's shareholders.

During the nine months ended September 30, 2007, financing activities provided \$10.9 million of cash compared to net cash used by financing activities of \$53.2 million during the nine months ended September 30, 2006. The change in cash from financing activities in the first nine months of 2007 was due to approximately \$18.9 million in net proceeds from the public offering of common stock along with subsequent stock option exercises, partially offset by \$6.5 million in net repayments of short-term borrowings. Cash used by financing activities during the nine months ended September 30, 2006 was attributable primarily to approximately \$74.0 million paid to shareholders in connection with the Bruker Optics acquisition, partially offset by \$19.5 million in net proceeds from short-term borrowings.

At September 30, 2007, we had a demand line of credit with Citizens Bank in the United States with a maximum available amount of \$75.0 million. The line of credit is 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. As of September 30, 2007, our U.S. line of credit was fully available. We also maintain revolving lines of credit totaling approximately \$44.4 million with various German, Japanese and Swedish banks. The German, Japanese and Swedish lines of credits are unsecured and as of September 30, 2007 approximately \$13.8 million, in the aggregate, was outstanding on these lines of credit.

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In addition to our lines of credit, we have both short-term and long-term notes payable with outstanding balances aggregating \$25.3 million as of September 30, 2007. The interest rates on these obligations range from 1.8% to 8.01%. 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 Securities Industry and Financial Markets Association SWAP Index. The interest rate swap has a notional value of \$1.7 million which decreases in conjunction with the State of Wisconsin industrial revenue bonds (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, 2007 (in thousands):

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
|--------------------------------|--------------|-----------------------------|----------------------|----------------------|------------------------------|
| Short-term borrowings | \$ 21,014 | \$ 21,014 | | | |
| Long-term borrowings | 18,078 | | 14,986 | 2,150 | 942 |
| Pension | 13,157 | 152 | 687 | 1,273 | 11,045 |
| Total contractual obligations | \$ 52,249 | \$ 21,166 | \$ 15,673 | \$ 3,423 | \$ 11,987 |

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, 2007, the latest measurement date, we were in compliance with all financial covenants.

As of September 30, 2007, we have approximately \$12.3 million of net operating loss carryforwards available to reduce future U.S. taxable income. These losses have various expiration dates through 2026. We also had foreign tax credits of approximately \$5.0 million that expire in 2016 and research and development tax credits of approximately \$3.1 million available to offset future U.S. tax liabilities that expire at various dates through 2025.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, Including an amendment of FASB Statement No. 115* (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective as of the beginning of fiscal 2008. The Company has not yet assessed the effect, if any, that adoption of SFAS 159 will have on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 provides a common fair value hierarchy for companies to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such fair value measurements were developed. SFAS 157 clarifies the principle that fair value should be based on the assumptions that the marketplace would use when pricing an asset or liability, rather than company specific data. The Company is currently assessing the impact that SFAS 157 will have on its 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 risk, 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 forward currency exchange contracts having maturities of less than twelve months with notional amounts aggregating \$2.3 million. These contracts involve the purchase of Japanese Yen, Singapore Dollars, U.S. Dollars and EURO currency at fixed U.S. dollar and EURO amounts. The notional amounts of the contracts are intended to hedge receivables in U.S. dollars and EURO. 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, 2007 and 2006, the currency exchange contracts had a favorable fair value of \$0.0 million and a favorable fair value of \$0.7 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 \$0.2 million and \$0.1 million during the three months ended

September 30, 2007 and 2006, respectively, and a net gain of \$0.4 million and \$3.9 million during the nine months ended September 30, 2007 and 2006, respectively.

Realized foreign exchange losses were approximately \$(1.1) million and \$(0.1) million for the three months ended September 30, 2007 and 2006, respectively, and approximately \$(1.7) million and \$(1.2) million for the nine months ended September 30, 2007 and 2006, 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 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 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 \$3.1 million or \$(2.5) 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 \$2.0 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 Securities Industry and Financial Markets Association SWAP Index on a \$1.7 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, 2007, 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 two derivative financial instruments: a cross currency interest rate swap and an interest rate swap. The cross currency interest rate swap is for 5.0 million Euro and we receive semiannual interest payments in Euro 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 reduced 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. Until the instruments become an effective hedge, the instruments are considered speculative and are marked-to-market through interest and other income (expense), net, on the consolidated statement of operations. As of September 30, 2007 and 2006, the cross currency interest rate swap had an unfavorable fair value of \$(0.6) million and \$(0.0) million, respectively. As of September 30, 2006, the interest rate swap had an unfavorable fair value of approximately \$(29,000).

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, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls were effective at September 30, 2007.

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.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2007 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, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K 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.

There have been no material changes to the risk factors disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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

None.

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

- 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

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 6, 2007

By:

/s/ Frank H. Laukien, Ph.D.
Frank H. Laukien, Ph.D.

*President, Chairman, Chief Executive Officer, and
Director*

(Principal Executive Officer)

Date: November 6, 2007

By:

/s/ William J. Knight
William J. Knight

Chief Financial Officer

(Principal Financial and Accounting Officer)