BRUKER BIOSCIENCES CORP
Form 10-Q
August 09, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 000-30833

Bruker BioSciences Corporation

(Exact name of registrant as specified in its charter)

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

40 Manning Park
Billerica, MA 01821

(Address of principal executive offices)

(978) 663-3660

(Registrant s telephone number, including area code)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

As of August 4, 2006, there were 101,961,522 shares of the Registrant s common stock outstanding.

Bruker BioSciences Corporation

Form 10-Q

For the Quarter Ended June 30, 2006

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

Bruker BioSciences Corporation

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2006 (Unaudited)	**December 31, 2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96,596	$ 53,159
Short-term investments		46,419
Accounts receivable, net	61,709	53,744
Due from affiliated companies	2,678	4,860
Inventories	103,174	96,333
Other current assets	11,879	11,094
Total current assets	276,036	265,609
Property, plant and equipment, net	74,864	72,336
Intangibles and other assets	28,826	22,942
Total assets	$ 379,726	$ 360,887
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 9,613	$ 8,002
Accounts payable	12,340	14,118
Due to affiliated companies	3,472	3,857
Customer advances	28,762	29,232
Other current liabilities	62,203	56,319
Total current liabilities	116,390	111,528
Long-term debt	21,969	21,423
Other long-term liabilities	23,293	20,134
Commitments and contingencies (Note 12)		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, none issued or outstanding at June 30, 2006 or December 31, 2005		
Common stock, $0.01 par value, 200,000,000 and 150,000,000 shares authorized, 90,086,241 and 89,803,836 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	901	898
Other stockholders equity	217,173	206,904
Total shareholders equity	218,074	207,802
Total liabilities and shareholders equity	$ 379,726	$ 360,887

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Product revenue	$ 67,373	$ 60,723	$ 132,330	$ 127,547
Service revenue	10,234	9,977	19,043	17,732
Other revenue	233	668	877	1,000
Total revenue	77,840	71,368	152,250	146,279
Cost of product revenue	38,599	34,275	74,841	72,540
Cost of service revenue	5,279	6,548	10,500	11,815
Total cost of revenue	43,878	40,823	85,341	84,355
Gross profit	33,962	30,545	66,909	61,924
Operating expenses:				
Sales and marketing	15,426	13,385	29,398	25,537
General and administrative	5,532	5,287	11,148	10,955
Research and development	10,619	10,962	20,993	21,982
Acquisition related charges	1,192		2,368	
Total operating expenses	32,769	29,634	63,907	58,474
Operating income	1,193	911	3,002	3,450
Interest and other income, net	459	554	1,122	424
Income before income tax provision and minority interest in consolidated subsidiaries	1,652	1,465	4,124	3,874
Income tax provision	1,127	1,145	2,775	3,070
Income before minority interest in consolidated subsidiaries	525	320	1,349	804
Minority interest in consolidated subsidiaries	45	36	93	103
Net income	$ 480	$ 284	$ 1,256	$ 701
Net income per common share - basic and diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.01
Weighted average common shares outstanding:				
Basic	90,080	89,472	90,054	89,471
Diluted	90,493	89,599	90,403	89,591

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended June 30, 2006	2005
Operating activities:		
Net cash provided by operating activities	$ 260	$ 21,660
Investing activities:		
Purchases of property and equipment	(1,858)	(1,249)
Redemption of short-term investments	46,460	464
Acquisitions, net of cash acquired	(3,970)	110
Changes in restricted cash	(107)	(153)
Net cash provided by (used in) investing activities	40,525	(828)
Financing activities:		
Proceeds from short-term borrowings, net	1,559	(1,874)
Repayments of long-term debt, net	(923)	(1,079)
Proceeds from issuance of common stock	49	11
Net cash provided by (used in) financing activities	685	(2,942)
Effect of exchange rate changes on cash	1,967	(3,079)
Net change in cash and cash equivalents	43,437	14,811
Cash and cash equivalents at beginning of period	53,159	32,547
Cash and cash equivalents at end of period	$ 96,596	$ 47,358

See the accompanying notes to financial statements.

Bruker BioSciences Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Presentation

Bruker BioSciences Corporation and its wholly-owned subsidiaries (the Company) design, manufacture, service and market proprietary life science and materials research systems based on mass spectrometry core technology platforms and X-ray technologies. The Company also sells a broad range of field analytical systems for chemical, biological, radiological and nuclear (CBRN) detection. The Company maintains major technical 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 prior to its acquisition of Bruker Optics Inc. on July 1, 2006. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements as of and for the three and six months ended June 30, 2006 and 2005 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Article 10 of Regulation S-X. The December 31, 2005 balance sheet is the balance sheet included in the audited financial statements as presented in the Company s 2005 Annual Report on Form 10-K. 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. Both the Company and Bruker Optics were majority owned by five affiliated stockholders prior to the acquisition. As a result, the acquisition of Bruker Optics by the Company is considered a business combination of companies under common control, and is being accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquisition of Bruker Optics, as it relates to the portion under common ownership (approximately 96%), is being accounted for at historical carrying values. The portion not under the common ownership of the five affiliated stockholders (approximately 4%) is being accounted for using the purchase method of accounting (at fair value) on a pro rata basis. Any excess purchase price of the interest not under common control over the fair value of the related net assets acquired is being accounted for as goodwill and intangible assets. Because this acquisition will be essentially considered a pooling of interests, all one-time transaction costs will be expensed as incurred rather than being added to goodwill. During the six months ended June 30, 2006, the Company incurred and expensed acquisition related charges totaling $2.4 million, which consisted of investment banking, legal and accounting fees, compensation earned by the special committee of the Company s Board of Directors and antitrust regulation filing fees. The consolidated balance sheets, statements of operations, statements of cash flows and notes to the financial statements presented in this Quarterly Report on Form 10-Q exclude Bruker Optics since the acquisition was completed on July 1, 2006. See footnote 16 for selected pro forma information including the results of Bruker Optics.

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

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

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

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

2. Acquisition

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

Socabim s principal customer before the acquisition which required the Company to evaluate the preexisting relationship with Socabim in accordance with Emerging Issues Task Force No. 04-1, Accounting for Preexisting Relationships between the Parties to a Business Combination. EITF 04-1 requires an analysis to be performed to determine whether there has been an effective settlement of a preexisting executory contract that was either favorable or unfavorable to the acquirer. To the extent there was an executory contract that was either favorable or unfavorable to the acquirer, a gain or loss is recognized. Management determined there was no settlement of a preexisting executory contract in the acquisition of Socabim and, accordingly, no gain or loss was recognized. The results of Socabim have been included in the Bruker AXS segment from the date of acquisition. Pro forma information to reflect the Socabim acquisition has not been presented as the impact on revenues and net income and net income per common share would not have been material.

3. Equity-Based Compensation

In 2000, the Board of Directors adopted and the stockholders approved the 2000 Stock Option Plan. The 2000 Stock Option Plan provided for the issuance of up to 2,200,000 shares of common stock in connection with awards under the Plan. The 2000 Stock Option Plan allows a committee of the Board of Directors to grant incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock and phantom shares). The committee has the authority to determine which employees will receive the awards, the amount of the awards and other terms and conditions of the award. Awards granted by the committee typically vest over a period of three-to-five years.

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

The total number of shares issuable under the plan is 8,000,000, of which 6,320,000 have been registered on Form S-8 (Reg. No. 333-47836 and 333-107924).

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

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

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

	Three months ended June 30, 2006	**Six months ended June 30, 2006**
Stock options	$ 242	$ 459
Restricted stock	37	74
Total stock-based compensation, pre-tax	279	533
Tax benefit	145	145
Total stock-based compensation, net of tax	$ 134	$ 388

Restricted Stock

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

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2005		$
Granted	130,550	5.00
Vested		
Forfeited	(1,500)	5.00
Outstanding at June 30, 2006	129,050	$ 5.00

Unrecognized pretax expense of $0.7 million related to restricted stock awards is expected to be recognized over the weighted average remaining service period of 4.5 years for awards outstanding at June 30, 2006.

Stock Options

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

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

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

	Shares Subject to Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value ($ s in 000 s)
Outstanding at December 31, 2005	3,576,868	$ 6.43		
Granted	335,250	4.94		
Exercised	(15,103)	3.30		
Forfeited	(180,165)	7.12		
Outstanding at June 30, 2006	3,716,850	$ 6.27	5.4	$ 2,457
Exercisable at June 30, 2006	3,084,997	$ 6.69	5.1	$ 1,751

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

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (Yrs)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($ s in 000 s)	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value ($ s in 000 s)
$2.12 to $4.00	888,191	5.2	$ 3.20	$ 1,919	614,099	$ 3.12	$ 1,373
$4.01 to $6.00	1,698,595	5.7	5.07	538	1,340,834	5.11	378
$6.01 to $10.00	531,715	4.7	6.69		531,715	6.69	
$10.01 to $13.00	230,099	5.7	11.05		230,099	11.05	
$13.01 and above	368,250	4.8	15.64		368,250	15.64	
	3,716,850	5.4	$ 6.27	$ 2,457	3,084,997	$ 6.69	$ 1,751

The intrinsic values above are based on the Company s closing stock price of $5.36 on June 30, 2006. The weighted-average grant-date fair value of options granted during the six months ended June 30, 2006 was $3.34. Unrecognized pretax expense of $2.0 million related to stock options is expected to be recognized over the weighted average remaining service period of 1.6 years for awards outstanding at June 30, 2006.

Prior Year Equity Compensation Expense

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

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net income, as reported	$ 284	$ 701
Deduct:		
Total stock-based compensation expense determined using fair value based method for all awards, net of taxes	(638)	(1,276)
Net loss, pro forma	$ (354)	$ (575)
Net income (loss) per common share:		
Basic and diluted, as reported	$ 0.00	$ 0.01
Basic and diluted, pro forma	$ 0.00	$ (0.01)

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

Risk-free interest rate	3.83 %
Expected life	5 years
Volatility	69.7 %
Expected dividend yield	0 %

4. Inventories

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

	June 30, 2006	December 31, 2005
Raw materials	$ 25,854	$ 26,270
Work-in process	35,327	29,508
Demonstration units	12,753	16,768
Finished goods	29,240	23,787
Total inventories	$ 103,174	$ 96,333

5. Goodwill and Other Intangible Assets

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

		June 30, 2006			December 31, 2005		
	Useful Lives in Years	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology and related patents	4-5	$ 2,719	$ (1,140)	$ 1,579	$ 2,095	$ (950)	$ 1,145
Customer relationships	5	310	(187)	123	310	(156)	154
Trade names	10	310	(92)	218	310	(76)	234
Total amortizable intangible assets		$ 3,339	$ (1,419)	$ 1,920	$ 2,715	$ (1,182)	$ 1,533

For the three months ended June 30, 2006 and 2005, the Company recorded amortization expense of approximately $0.1 million and $0.1 million, respectively, related to other amortizable intangible assets. For the six months ended June 30, 2006 and 2005, the Company recorded amortization expense of approximately $0.2 million and $0.2 million, respectively, related to other amortizable intangible assets.

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

For the year ending December 31,	(in thousands)
2006 (a)	$ 485
2007	543
2008	325
2009	293
2010	182
Thereafter	92
Total	$ 1,920

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

The carrying amount of goodwill as of June 30, 2006 and December 31, 2005 was $21.5 million and $17.5 million, respectively, and is included in the Bruker AXS segment. The Company performs its annual test for indications of impairment as of December 31st each year. The Company completed its annual test for impairment as of December 31, 2005 and determined that goodwill was not impaired at that time.

6. Warranty Costs

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

Changes in the Company s accrued warranty liability during the six months ended June 30, 2006 were as follows (in thousands):

Warranty accrual at December 31, 2005	$ 7,489
Accruals for warranties issued during the period	4,334
Settlements of warranty claims	(3,982)
Foreign currency impact	484
Warranty accrual at June 30, 2006	$ 8,325

7. Provision for Income Taxes

For the three months ended June 30, 2006, the Company recorded an income tax provision of $1.1 million compared with an income tax provision of $1.1 million for the three months ended June 30, 2005. For the six months ended June 30, 2006, the Company recorded an income tax provision of $2.8 million compared with an income tax provision of $3.1 million for the six months ended June 30, 2005. In the United States, any income tax provision or benefit is currently recorded as an adjustment to the valuation allowance until sufficient positive evidence exists to support the reversal of a full valuation allowance.

8. 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 six months ended June 30, 2006 and 2005 (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Components of net periodic benefit cost				
Service cost	$ 180	$ 159	$ 345	$ 325
Interest cost	100	96	192	196
Recognized actuarial loss				200
Amortization	(5)	(9)	(8)	(19)
Net periodic benefit cost	$ 275	$ 246	$ 529	$ 702

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

9. Earnings Per Share

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

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

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Net income, as reported	$ 480	$ 284	$ 1,256	$ 701
Weighted average shares outstanding:				
Weighted average shares outstanding - basic	90,080	89,472	90,054	89,471
Net effect of dilutive stock options - based on treasury stock method	413	127	349	120
Weighted average shares outstanding - diluted	90,493	89,599	90,403	89,591
Net income per share - basic and diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.01

10. Interest and Other Income (Expense), Net

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

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Interest income	$ 811	$ 798	$ 1,523	$ 1,465
Interest expense	(291)	(425)	(544)	(787)
Exchange (losses) gains on foreign currency transactions	(254)	226	(303)	(220)
Appreciation of the fair value of derivative financial instruments	22		73	
Other expense	171	(45)	373	(34)
Interest and other income (expense), net	$ 459	$ 554	$ 1,122	$ 424

11. Comprehensive Income (Loss)

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

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Net income	$ 480	$ 284	$ 1,256	$ 701
Foreign currency translation adjustments	4,900	(6,463)	7,138	(11,735)
Total comprehensive income (loss)	$ 5,380	$ (6,179)	$ 8,394	$ (11,034)

12. 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.

13. Letters of Credit and Guarantees

As of June 30, 2006 and December 31, 2005, the Company had bank guarantees of $7.2 million and $8.3 million, respectively, for its customer advances. These bank guarantees affect the availability of the Company s lines of credit.

14. 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 two reportable segments: Bruker Daltonics and Bruker AXS. Bruker Daltonics manufactures and distributes mass spectrometry instruments that can be integrated and used along with other analytical instruments. Bruker AXS manufactures and distributes advanced X-ray instrumentation used in non-destructive molecular and elemental analysis in academic, research and industrial applications. Bruker BioSciences Corporation, the parent company of Bruker Daltonics and Bruker AXS, is the corporate entity that principally incurs certain public company costs.

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

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Revenue:				
Bruker Daltonics	$ 39,830	$ 37,362	$ 77,359	$ 80,005
Bruker AXS	39,113	34,068	76,970	66,582
Eliminations (a)	(1,103)	(62)	(2,079)	(308)
Total	$ 77,840	$ 71,368	$ 152,250	$ 146,279
Operating income (loss):				
Bruker Daltonics	$ 1,660	$ 973	$ 4,465	$ 3,948
Bruker AXS	1,599	420	2,660	1,241
Eliminations (a)	(415)		(655)	
Corporate	(1,651)	(482)	(3,468)	(1,739)
Total	$ 1,193	$ 911	$ 3,002	$ 3,450

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

15. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation sets forth a recognition threshold and valuation method to recognize and measure an income tax position taken, or expected to be taken, in a