

A PIONEER AND LEADER  
IN PROVIDING ENABLING  
LIFE-SCIENCE TOOLS BASED ON  
MASS SPECTROMETRY FOR THE  
POST-GENOMIC REVOLUTION



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>> BRUKER DALTONICS INC. is a leading manufacturer of mass spectrometry instruments and accessories for biotechnology and the life sciences. Products include a variety of FTMS, MALDI-TOF, ESI-TOF, and Ion Trap systems, as well as a complete line of automated sample processing systems and productivity-enhancing software.



I N N O V A T I V E  
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BRUKER DALTONICS is a leading developer and provider of innovative life science tools based on mass spectrometry. We have a global network of manufacturing, demonstration, and sales facilities that provide complete worldwide support for all of our products and services.

Mass spectrometers are sophisticated devices that provide highly accurate molecular information on a given sample. Our mass spectrometers are used in a wide variety of applications, including drug discovery, genomics (the study of genes and their function, research that includes the Human Genome Project), proteomics (the study of proteins, including their separation, characterization, and identification), metabolomics (the study of metabolism of substances, including disease pathways, metabolomic and biomarker profiling and fates), molecular biology, and medical research.

Our substantial investment in research and development allows us to design, manufacture, and market a broad array of products intended to meet the rapidly growing needs of our diverse customer base. Our customers include pharmaceutical companies, biotechnology companies, proteomics and genomics companies, molecular diagnostics companies, academic institutions, and government agencies. The explosive nature of the biotechnology industry in this post-genomic era has resulted in an ever-increasing range of applications to which our products are suited, as well as an on-going trend to take our products from classical research laboratories to active clinical facilities. The mass spectrometer, once the domain of the Ph.D. research scientist, has now become a hands-on, increasingly easier-to-use interactive tool for the clinical technician. Our systems typically combine automation (using robotics or automated sampling), mass spectrometric analysis, reagent kits (chemicals and other testing products consumed during the analysis), and bioinformatics software, which analyzes the data produced by the analysis.

Our life science solutions incorporate instruments that are based on one of four core mass spectrometry-technology platforms, each of which employs a different type of mass spectrometric analysis. These include Matrix Assisted Laser Desorption Ionization (MALDI) Time-of-Flight (TOF) mass spectrometry, ElectroSpray Ionization (ESI) mass spectrometry, Fourier Transform mass spectrometry (FTMS), and Ion Trap mass spectrometry. There are many variations of the implementation of each of these methods, which allow us to provide a range of products for each platform, tailored to particular applications or applicable to a broad spectrum of applications.

In addition to supplying life science solutions, we are a worldwide leader in supplying mass-spectrometry based products and systems for substance detection and pathogen identification in security, defense, and law enforcement applications. Our products range from hand-held devices for portable personal use, to large-scale monitoring and detection systems used in aircraft, in ground installations, and even at sea.

We market our life science systems through our direct sales force and also through strategic distribution agreements with our channel partners, including Agilent Technologies, Perkin-Elmer Instruments, Sequenom, MWG-Biotech, and others. We have a strong commitment to research and design, and are continually recognized



>> THE EXPLOSIVE NATURE OF THE BIOTECHNOLOGY INDUSTRY IN THIS POST-GENOMIC ERA HAS RESULTED IN AN EVER-INCREASING RANGE OF APPLICATIONS TO WHICH OUR PRODUCTS ARE SUITED, AS WELL AS AN ON-GOING TREND TO TAKE OUR PRODUCTS FROM CLASSICAL RESEARCH LABORATORIES TO ACTIVE CLINICAL FACILITIES.



as innovators in the area of life science systems based on mass spectrometry. We are continually expanding our automation methods for all products in areas that include sample processing, analytical sampling, and robotic interchange of sample platforms. Our automated systems allow the analysis of high volumes of materials, providing accurate, high-quality data on an extremely cost-effective basis.

This enhanced throughput, high-quality data improves our customers' abilities to utilize advanced bioinformatics software and information technology used to validate lead targets, understand disease pathways, and analyze lead components. Our products provide our customers with integrated solutions, a high degree of automation, accurate results, increased productivity, and cost efficiency.

Our strategy is to continue to be a leading provider of mass spectrometry and related systems for use in the life sciences, as well as in substance detection and pathogen identification. Key elements of our strategy include:

- > Providing a broad array of tools for a wide range of applications
- > Developing new platforms and applications, enhancing existing products
- > Building strategic alliances and pursuing acquisitions
- > Generating recurring revenue
- > Developing and expanding our bioinformatics business
- > Leveraging our intellectual property

*Bruker Daltonics was incorporated in Massachusetts in February 1991. In February 2000, we reincorporated in Delaware as Bruker Daltonics Inc.*

I AM PLEASED TO REPORT that 2000 was an outstanding year for Bruker Daltonics. Our total product revenue in 2000 was \$74.8 million, a 43.0% increase from our adjusted product revenue of \$52.3 million in 1999. Net income from continuing operations for the year was \$2.1 million, or \$0.04 per share compared with \$0.9 million, or \$0.02 per share for the comparable period in 1999. In August of 2000, we completed our initial public offering, which generated approximately \$110 million in net proceeds for the Company.

Highlights of the year 2000 include strong new order bookings growth, as well as new strategic alliances with Perkin-Elmer, Variagenics, and GeneProt. Our continued substantial research and development investment resulted in the introduction of five new mass spectrometry systems, as well as a host of new bioinformatics and automation software, robotics, AnchorChips and consumables products.

Bruker Daltonics has focused on a product strategy in the life science mass spectrometry market that provides more and more integrated systems solutions, including not only cutting-edge mass spectrometry analysis systems, but also automation solutions, bioinformatics and preparation kits.

Our extensive product line is produced at our facilities in Bremen, Germany; Leipzig, Germany; and Billerica, MA, USA. We are pleased to announce the construction of an all-new facility in Billerica, as well as an extensive addition to our Bremen facility, both of which should be completed by mid-2002. These state-of-the-art facilities will include all new customer demonstration and collaboration laboratories, in addition to R&D and manufacturing areas to keep us on the cutting-edge of our markets and technologies.





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GARY KRUPPA, PH.D.  
VICE PRESIDENT  
OF BRUKER  
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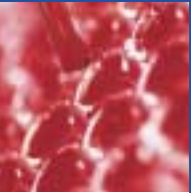
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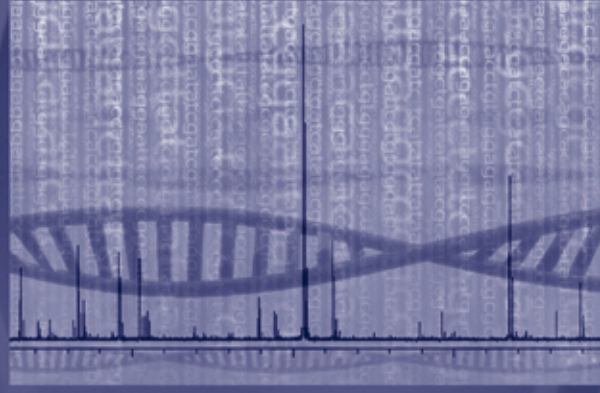


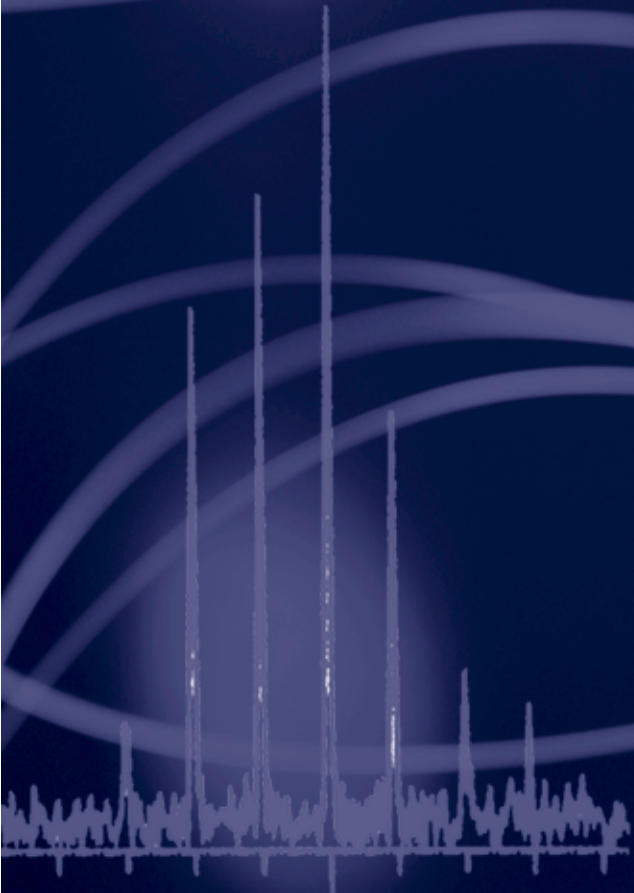
>> BRUKER DALTONICS HAS FOCUSED ON A PRODUCT STRATEGY IN THE LIFE SCIENCE MASS SPECTROMETRY MARKET THAT PROVIDES MORE AND MORE INTEGRATED SYSTEMS SOLUTIONS, INCLUDING NOT ONLY CUTTING-EDGE MASS SPECTROMETRY ANALYSIS SYSTEMS, BUT ALSO AUTOMATION SOLUTIONS, BIOINFORMATICS AND PREPARATION KITS.

We believe that the new biotech economy of the post-genomic era will focus on genotyping, proteomics, metabolomics, drug discovery, and other life science areas. Bruker Daltonics, with its mass spectrometry based life science systems, is in an excellent position to provide solutions to address many of these rapidly growing life science markets. We believe that the future holds many exciting opportunities for Bruker Daltonics and its shareholders. We also derive great personal and professional satisfaction from enabling our customers to accelerate the discovery and development of better drug therapies and diagnostic methods to improve healthcare and contribute to the future of personalized medicine.

FRANK LAUKIEN, PH.D.  
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

# S H A R E H O L D E R S





B I O - B A R C O D I N G  
P H A R M A C O G E N O M I C S  
P E R S O N A L I Z E D M E D I C I N E  
M E T A B O L O M I C S

**LIFE SCIENCES:** Bruker Daltonics produces a wide variety of tools for use in the study of the life sciences. These tools are based on our four fundamental mass spectrometry technologies, namely Ion Trap mass spectrometry, Matrix Assisted Laser Desorption Ionization (MALDI) Time-of-Flight (TOF) mass spectrometry, ElectroSpray Ionization (ESI) TOF mass spectrometry, and Fourier Transform mass spectrometry (FTMS). In addition to these core technologies, we also provide various degrees of automation, accessories, and bioinformatics software, thus allowing us to provide a total and complete analytical package for a wide range of investigations.

ION TRAP MASS SPECTROMETERS

The Ion Trap is a three dimensional component of the spectrometer into which ions are introduced (in this case, electronically sprayed via a technique called ElectroSpray Ionization). Once inside the Ion Trap, the ions are stored, for a short time, by an electromagnetic field. The ions are then released or “ejected” at defined charge-to-mass values by the application of appropriate secondary electric fields. A detector then measures these ions according to their charge-to-mass value, allowing us to perform not only *qualitative* analysis at different masses, but also very accurate *quantitative* analysis as well.

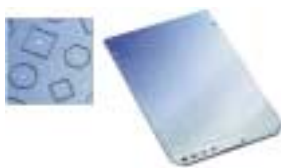
The Ion Trap analysis is thus a very attractive method for the study of the structure and function of biomolecules such as proteins, DNA, and natural products, the analysis of complex mixtures such as combinatorial libraries, proteomics, metabolomics, as well as high-throughput drug screening. The Ion Trap is often coupled with a liquid chromatograph to provide an even higher lever of specificity during analysis.

The *esquire* series Ion Trap mass spectrometers from Bruker Daltonics combine our patented Ion Trap technology with source and liquid chromatography technology from Agilent. *esquire* offers many performance benefits over other Ion Trap systems, including faster scan rates, higher sensitivity, a wider mass range, a simple Windows NT/2000 user interface, and software integration with Agilent separation systems. The *esquire2000* performs a wide range of MS/MS experiments, while the *esquire3000* performs complete MS<sup>n</sup> analysis. Bruker Daltonics also manufactures a related instrument, the LC/MSD-Trap, which is distributed by Agilent.

MALDI-TOF MASS SPECTROMETERS

The MALDI-TOF mass spectrometer is comprised of the MALDI, which is the source or ionization component that sends the sample to the spectrometer, and the TOF, which is the analytical part of the spectrometer. “Matrix Assisted Laser Desorption Ionization” is a rather long expression for a relatively simple process.





The material to be analyzed is mixed with a liquid matrix material and deposited onto a metal plate. Once this matrix/analyte mixture is placed into the spectrometer, it is hit with a laser beam. When the laser hits the matrix/analyte material, the material is *desorbed* or directly ionized from the plate, and sent to the spectrometer (TOF tube) for analysis. Hence, the analyte undergoes matrix assisted, laser desorption ionization.

The TOF is a long metal tube (usually about 1-meter or so in length) equipped with an opening at one end (to receive the material from the MALDI source) and a detector at the other. Sometimes, there is an electronic reflector ("reflectron") in place of the detector, which can alternatively reflect the ions to a detector along a second, additional TOF tube.

TOF, or Time-of-Flight, works on the very simple principle that heavier particles travel slower through the tube than lighter ones. Inside the same fixed-distance tube, lighter ions will have shorter travel times than their heavier counterparts. Since the masses of ions are absolute values based on atomic components, it is a relatively simple matter for a computer and bioinformatics software package to identify ions and molecular fragments after travelling through the TOF tube to the detector.

MALDI-TOF analysis is extremely versatile and, by nature, allows for extremely rapid (and thus high-throughput) analysis. Typical applications include SNP (single nucleotide polymorphism) analysis, genotyping, personalized medicine, forensics, proteomics and protein function analysis, drug discovery and development, and fast cell and tissue biomarker detection.

**REFLEX IV:** Our top-of-the-line MALDI-TOF offers modular flexibility that allows various configurations in the research laboratory and automated sampling combined with highest possible sensitivity, resolution, and accuracy. The system runs in a true Windows environment, using either Windows NT or Windows 2000.

**BIFLEX IV:** The BIFLEX IV combines high-end performance with high throughput for industrial biotechnology and drug discovery applications. Our channel partners such as Sequenom and MWG biotech have already integrated the BIFLEX into genomics and SNP systems, respectively.

**AUTOFLEX:** The *autoflex* is the first MALDI-TOF system thoroughly designed for ultra high sample throughput. This complete system includes extremely fast, automated analyses, and also provides maximum reliability of all system components for many millions of analyses. The *autoflex* includes automated processing of MALDI targets in MTP™ format, and using the new 1536 MTP format, can process over 30,000 samples without operator intervention. Refill or rearrangement of the target stack in the Twister™ autosampler is quick and easy even during analysis.

**OMNIFLEX:** The OmniFLEX is our first "bench-top" MALDI-TOF instrument, for use in general purpose laboratories. The OmniFLEX combines sensitivity, resolution, and accuracy for a wide variety of applications, at a very reasonable cost. Bruker Daltonics produces the OmniFLEX for co-marketing with Perkin-Elmer Instruments.



SCOUT 100



OMNIFLEX



APEX III



AUTOFLEX

All of our MALDI-TOF instruments utilize our proprietary **ANCHORCHIP™** microarrays for sample analysis. These microarrays employ patented microfluidics technology that improves sensitivity and reduces analysis time per sample by concentrating the sample in a defined location.

Additionally, all Bruker Daltonics MALDI-TOF systems, using standard microtiter plate formats, may take advantage of our MALDI Auto Prep (MAP) station. Available in either single-dropper or new 8-dropper design, the MAP II can completely process samples for MALDI analysis, combining analyte with matrix and depositing it perfectly onto a microtiter plate. This automated preparation represents a significant reduction in overall sample processing times.

#### ESI-TOF MASS SPECTROMETERS

ESI-TOF uses a Time-of-Flight component like that of its MALDI counterpart; however, the ESI source uses ElectroSpray Ionization similar to the *esquire* series. The difference is that the BioTOF™ II LC/ESI-TOF utilizes the Bruker Daltonics APOLLO™ source, which provides a much greater variety of sample introduction options and compatibilities than are required by the *esquire*. The design of the APOLLO uses an ionization process which does not destroy or fragment the analyte sample. This “gentle” sample introduction allows for analysis of large biological molecules with rapid data acquisition. The APOLLO source is also available with the APEX III FTMS.

The **BIO TOF II LC/ESI-TOF** routinely is used for proteomics, including protein identification and functional complex analysis of proteins and protein function; metabolomics, including molecular identification of metabolites; combinatorial chemistry high-throughput screening (HTS); and fast liquid chromatography mass spectrometry (LC/MS) in drug discovery and development.

#### FOURIER TRANSFORM MASS SPECTROMETERS

Fourier Transform Mass Spectrometers employ high-field superconducting magnets to offer the highest resolution, selectivity, and accuracy currently achievable in mass spectrometry. Our systems based on this technology often eliminate the need for time-consuming separation techniques in the analysis of complex mixtures. In addition, our systems can fragment molecular ions to perform exact mass analysis on all fragments to determine molecular structure.

The **APEX III FTMS** is our flagship mass spectrometer system. It is the most versatile of all of our mass spectrometer systems, and may be configured with a wider variety of source and sample introduction options than any other commercially produced FTMS. It is available in a wide variety of magnetic field strengths (the higher the magnetic field, the better the resolution, selectivity, and accuracy). The APEX III routinely is used for the study of a wide variety of biomolecules (including DNA and natural products). It is also the instrument of choice for the analysis of complex mixtures, including combinatorial chemistry analysis. In addition, it may be configured with a full range of automation accessories, and is widely used for high-throughput proteomics, metabolomics, and drug screening applications.

MM-1



CBMS



VIKING 573



RAID-S



## SUBSTANCE DETECTION AND PATHOGEN IDENTIFICATION :

Bruker Daltonics manufactures a wide range of portable analytical and bio-analytical detection systems and related products. These are used for nuclear, biological pathogen and chemical defense applications, anti-terrorism, law enforcement, and process and facilities monitoring. These products are extremely versatile and can be used for broad-scope and/or custom-tailored applications. Our systems include (but are not limited to):

**MM-1:** Mobile mass spectrometer for automatic detection of chemical substances

**CBMS:** Mobile Ion Trap mass spectrometers for automated classification of biological pathogens and identification of chemical agents

**RAID-16 AND RAID-S:** Portable and stationary automated ion-mobility detectors for chemical agents

**SPME-RAID:** Trace detector for explosives

**EM640 SERIES:** Transportable mass spectrometers for emergency response

**VIKING 573:** Portable gas chromatography mass spectrometer for law enforcement

**RAPID II:** Long-range infrared detector for chemical substance clouds

**SVG-2:** Solid-state radiation detector

**NIGAS:** Non-intrusive neutron activation detector for chemical component analysis in closed containers

## WHO USES OUR PRODUCTS ?

**MASS SPECTROMETRY SYSTEMS** have made the transition from the research lab to the clinical lab, where they have been embraced by a wide variety of new users from diverse backgrounds. Our individual users include undergraduate students, graduate students, post-doctoral students, medical students, research scientists in universities and hospitals, clinical diagnosticians, research scientists in private companies such as pharmaceutical, proteomics or other biological companies, as well as scientists in government labs.

Our substance detection and pathogen identification customers also come from many walks of life, and include police officers, government employees, and military employees. A large number of private companies also use

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>> ALL OF OUR MALDI-TOF INSTRUMENTS UTILIZE OUR PROPRIETARY ANCHORCHIP MICROARRAYS FOR SAMPLE ANALYSIS. THESE MICROARRAYS EMPLOY PATENTED MICROFLUIDICS TECHNOLOGY THAT IMPROVES SENSITIVITY AND REDUCES ANALYSIS TIME PER SAMPLE BY CONCENTRATING THE SAMPLE IN A DEFINED LOCATION.

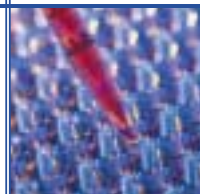




>> MASS SPECTROMETERS ARE NOW BEING USED TO PROVIDE ANSWERS TO A FULL GAMUT OF QUESTIONS; THOSE POSED BY THE ADVANCED RESEARCHER, THE BIOTECH LAB TECHNICIAN, AND A TREMENDOUS RANGE OF PEOPLE IN-BETWEEN.

our products. Operators usually do not have advanced degrees of any kind, and use our products solely as tools to help them get their jobs done.

Our life science customer base includes pharmaceutical, biotechnology, agricultural biotechnology, molecular diagnostics, chemical companies, commercial laboratories, university laboratories, medical schools, other not-for-profit research laboratories, and government laboratories. Our substance detection and pathogen identification business is largely comprised of defense departments, law enforcement, and emergency response professionals worldwide.



## WHAT THE FUTURE MAY BRING

AS RECENTLY AS 25 YEARS AGO, much of mass spectrometry might have been widely considered as an area of science best left to the Ph.D. researcher (or the graduate student in his or her group). Instrumentation was often cumbersome and oversized, with large, shiny metal flanges and flight tubes connected in a seemingly random array surrounded by armies of vigilant, loud vacuum pumps. The PC was in its infancy and operating systems were often, at best, composed of oscilloscopes, chart recorders, and mysterious black boxes.

Although the capabilities and analytical utility of mass spectrometers have developed steadily since their introduction, it was not until the 1980s that mass spectrometry became recognized for its value in the study of life sciences and biotechnology.

Many of the first commercially-available mass spectrometers did not appear until the early 1980s. In just 10 years, from the 1980s to the 1990s, mass spectrometers evolved from large, clumsy instruments to sleek, modern systems (in many cases, soon to become bench-top in design), driven by easy-to-use PC-based user interfaces supported by extremely powerful bioinformatics software.

Bruker Daltonics has been a part of many of the advances in mass spectrometry technology. From our original commercially-available FTMS in the early 1980s, followed by MALDI-TOF, Ion Trap, and ESI-TOF, we have recognized the value of mass spectrometry for the life sciences and other applications. In this “Post-Genomic Era,” our world has advanced far enough to unravel the basic building blocks of the Human Genome. With the completion of that formerly science-fictional task, we now have the real work ahead of us.

The proteins, metabolites, mechanisms and pathways of life science processes (and the development of drugs that affect them) are now the primary targets of our research. The push is on to provide information more quickly,

>> IN THIS "POST-GENOMIC ERA," OUR WORLD HAS ADVANCED FAR ENOUGH TO UNRAVEL THE BASIC BUILDING BLOCKS OF THE HUMAN GENOME. WITH THE COMPLETION OF THAT FORMERLY SCIENCE-FICTIONAL TASK, WE NOW HAVE THE REAL WORK AHEAD OF US.

and in more detail, than ever before. Internet connectivity for the sharing of results and archived databases provides researchers with instant gratification and automation and push-button graphic user interfaces are standard equipment.

We now find that mass spectrometers have moved from the research laboratory to the clinical laboratory, run by technicians and medical personnel who do not need advanced training in mass spectrometry. The OmniFLEX MALDI-TOF is an excellent example of the maturation of the mass spectrometer — a true bench-top instrument, just over a meter in length, it is designed for easy, walk-up use and is useful for a wide variety of applications.

MS BioTools v. 2.0, our bioinformatics software, provides the connectivity and processing power to take mass spectrometry to the next level. The operator, advanced or novice, will immediately appreciate the tremendous versatility of this important software package. The highly advanced REFLEX IV and BIFLEX IV MALDI-TOF, with their true Windows (NT or 2000) operating systems, take full advantage of BioTools, and are easier to use than ever.

As for automation, the *autoflex* system represents the next generation of high-throughput technology. Capable of running over 30,000 samples in a single day without operator intervention and coupled with performance rivaling that of the most powerful systems in its class, it is one of the most advanced MALDI-TOFs of its kind.

The *esquire* series spectrometers, with their compact bench-top design, powerful Smart Data™ software suite, and seamless LC interface, are excellent instruments for many applications, including proteomics, metabolomics, and high-throughput drug screening. A common trend in proteomics analysis utilizes MALDI-TOF (often OmniFLEX or BIFLEX) prescreening followed by in-depth Ion Trap (*esquire*) analysis for a complete profile of the protein material.

Another extremely exciting area of mass spectrometry is the field of FTMS. New advances in cryogenic magnet technology in the past few years have allowed us to produce "actively-shielded" magnets that occupy a fraction of the space (and subsequent magnetic field area) once required for high-field analysis. We can now "site" extremely powerful APEX III systems in relatively small facilities, allowing more and more users to accommodate FTMS instrumentation in their labs. In addition, the shrinking of the vacuum cart (the major instrumental component of the APEX III) over the past several years, accompanied by a marked increase in analytical capability, is a testament to the tremendous advances in FTMS made by Bruker Daltonics.

Bruker Daltonics introduced several new products at The Pittsburgh Conference and Exhibition in early March 2001, and expects to provide other new product offerings in the second half of the year. Simultaneously, we are expanding our R&D and manufacturing facilities and infrastructure both in Billerica, Massachusetts, USA, and in Bremen, Germany. We also continue to add international applications and distribution subsidiaries, most recently in Australia and Singapore, and soon in South Korea and BeNeLux.

When you look to the future of mass spectrometry, continue to look to Bruker Daltonics to take the lead, as we explore, expand, and embrace new and important uses of mass spectrometry in all aspects of science around us. These are exciting times for the life sciences and other areas, and we hope you will join us as we look to help shape our own tomorrow.

FINANCIAL REPORT

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## SELECTED FINANCIAL DATA

The data presented below have been derived from financial statements that have been prepared in accordance with accounting principles generally accepted in the United States and should be read with the consolidated and combined financial statements, including the notes, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

YEAR ENDED DECEMBER 31.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
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(in thousands, except per share data)

### CONSOLIDATED/COMBINED STATEMENTS OF OPERATIONS DATA

Product revenue	\$43,942	\$49,247	\$40,157	\$60,620	\$ 74,772
Other revenue	2,130	1,878	2,050	4,070	1,830
Net revenue	46,072	51,125	42,207	64,690	76,602
Total costs and operating expenses	38,882	48,527	42,368	62,050	75,868
Operating income (loss) from continuing operations	7,190	2,598	(161)	2,640	734
Income (loss) from continuing operations	3,895	355	(888)	876	2,066
Income (loss) per share from continuing operations	\$0.08	\$0.01	\$(0.02)	\$0.02	\$0.04

AS OF DECEMBER 31.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
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### CONSOLIDATED/COMBINED BALANCE SHEET DATA

Cash, cash equivalents and short-term investments	\$3,766	\$2,021	\$1,135	\$2,443	\$ 94,629
Working capital	(14,759)	(8,845)	6,338	12,080	111,054
Total assets	62,105	52,249	63,841	67,309	184,554
Total debt	19,033	8,496	17,924	15,340	12,037
Total stockholders' equity	9,996	9,870	10,340	10,058	124,172

### COMMON STOCK MARKET PRICES

Our common stock has been quoted on the Nasdaq National Market since August 4, 2000. Prior to that time, there was no public market for the common stock. The following table sets forth, for the period indicated, the high and low sale prices for the common stock as reported on the Nasdaq National Market.

	<u>HIGH</u>	<u>LOW</u>
Third Quarter 2000 (from August 4, 2000)	\$51.375	\$19.188
Fourth Quarter 2000	\$47.313	\$15.063
First Quarter 2001 (through March 23, 2001)	\$27.250	\$ 8.313

On March 23, 2001, the last sale price of the common stock on the Nasdaq National Market was \$11.063. As of March 23, 2001, we had approximately 713 holders of security positions. We have never declared or paid cash dividends on our capital stock. We currently anticipate that we will retain all available funds for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Financial Data" and our financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under "Factors Affecting Our Business, Operating Results and Financial Condition" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2001.*

## OVERVIEW

We are a leading developer and provider of innovative life science tools based on mass spectrometry. We are also a worldwide leader in supplying mass spectrometry-based systems for substance detection and pathogen identification in security and defense applications. We maintain technical centers in Europe, North America and Japan, as well as customer support facilities in many industrialized and developing countries. We allocate substantial capital and resources to research and development and are party to various collaborations and strategic alliances. Our diverse customer base includes pharmaceutical companies, biotechnology companies, proteomics companies, academic institutions and government agencies.

Effective December 21, 1998, Bruker Daltonics Inc. acquired all of the shares of Bruker Daltonik GmbH for \$5.4 million. The transaction represented an exchange between entities under common control and, accordingly, the assets acquired and liabilities assumed have been accounted for at historical cost in a manner similar to that of pooling-of-interests accounting. In addition, all periods presented have been restated to reflect the businesses on a combined basis.

## ACQUISITIONS

In December 1999, we acquired a 49% interest in ProteiGene, Inc., a Delaware corporation, from a related party. ProteiGene is a biomarker research and development company specializing in the application of mass spectrometry and bioinformatics for medical and microbiology cell and tissue analysis. The acquisition cost was \$50,000 in cash, the estimated fair market value, and was accounted for as a purchase. In March 2000, we acquired the remaining 51% interest in ProteiGene for \$26,000 from an unrelated party.

In June 1999, we purchased the assets of Viking Instruments Corporation, a developer and manufacturer of transportable gas chromatograph mass spectrometers. These instruments are used for laboratory and field analysis of soil, air and water for the identification and quantification of a wide variety of organic compounds and pollutants. The acquisition cost was \$150,000, and the results of operations are included in the accompanying consolidated financial statements from the date of acquisition. In connection with the acquisition, \$100,000 was expensed as purchased in-process research and development, \$25,000 was allocated to core technology and classified as an intangible, \$20,000 was allocated to inventory, and \$5,000 was allocated to fixed assets. The amortization period is five years for the intangibles and three to five years for the fixed assets.

The \$100,000 in-process research and development was attributed to the Viking 573, a transportable gas chromatograph mass spectrometer, and supported by a discounted probable cash flow analysis on a project-by-project basis modified to reflect the stage of completion of the in-process research and development expenditures. As of June 22, 1999, the feasibility of the acquired technology had not been established, and the acquired technology had no future alternative uses.

In connection with the Viking 573 project, we invested an additional \$313,000 out of operational cash flows through December 31, 1999. We shipped our first unit in December 1999 which was accepted by the customer in January 2000.

## DISCONTINUED OPERATIONS

In 1999, we decided to dispose of our analytical infrared sales group. In March 2000, we completed the divestiture to a related party, Bruker Optik GmbH, without a gain or loss. Our former analytical infrared sales group sold and serviced instruments, not manufactured by us, in Germany only. The infrared sales group generated revenues of \$2.7 million in fiscal 1999. Amounts previously reported have been reclassified as discontinued operations and are not included in this discussion.

## SIGNIFICANT ACCOUNTING POLICIES

### CUSTOMER DEPOSITS

Under the terms and conditions of contracts with many of our customers, we require a portion of the purchase price in the form of an advance deposit. We record these deposit amounts as a liability until the associated revenue is recognized at the time of acceptance of the system.

### REVENUE RECOGNITION

We recognize revenue from system sales, including hardware with embedded software, when a product is accepted by the customer, except when sold through an independent distributor, a strategic distribution partner or an unconsolidated Bruker affiliated distributor which assumes responsibility for installation, in which case the system sale is recognized when the products are shipped to the distributor and title transferred to the distributor. Our distributors do not have price protection rights or rights to return; however our products are warranted to be free from defect for a period of, typically, one year. Revenue from accessories and parts is recognized upon shipment, and revenue from services when performed.

#### COST OF PRODUCT REVENUE

Cost of product revenue includes all direct materials, direct labor, benefits and indirect costs related to generating revenue. These indirect costs include indirect labor, materials and supplies, equipment rental and depreciation of production equipment, test equipment and facilities as related to production space revenue.

#### SALES AND MARKETING

Sales and marketing expenses include salaries, sales commissions, benefits, travel, occupancy costs and related expenses for our direct sales force, sales support and marketing functions. We have expanded our sales and marketing organization substantially since 1997, adding subsidiaries and sales representatives in China, France, Japan, Scandinavia, Switzerland, the United Kingdom, Canada, Italy and Taiwan. Sales and marketing expenses also include costs associated with supporting our distribution channel partners for our Time-of-Flight (TOF) and Ion Trap mass spectrometry products. We expect that sales and marketing expenses will continue to increase in the future as we further expand our global distribution capabilities and introduce new products.

#### GENERAL AND ADMINISTRATIVE

General and administrative expenses include salaries, benefits and expenses for our executive, finance, legal, human resources, and internal systems support personnel. In addition, general and administrative expenses include occupancy costs, fees for professional services and depreciation of office equipment. We expect general and administrative expenses to increase as we continue to expand our administrative infrastructure to support the anticipated growth of our business, including the costs associated with being a public company.

#### RESEARCH AND DEVELOPMENT

Research and development expenses include costs for the development of new technologies and products. These expenses include materials, salaries, benefits, occupancy costs, and related expenses for development personnel. We expense research and development costs as incurred. We expect to increase spending on research and development in order to develop new products and applications.

#### PATENT LITIGATION COSTS

Patent litigation costs include actual and estimated legal fees and anticipated assessments associated with litigation in connection with our intellectual property, particularly the Finnigan litigation. These costs may increase depending upon the outcome of the current legal proceedings.

#### YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

**PRODUCT REVENUE** Total product revenue increased \$14.2 million, or 23.3%, to \$74.8 million in 2000 compared to \$60.6 million in 1999. Our top-line product revenue growth rate for the year was approximately 39% before unfavorable currency effects due to the particular weakness of the European currencies throughout the year. Life science product revenue and substance detection and pathogen identification product revenue as a percentage of product revenue were approximately 66% and 22%, respectively, in 2000 compared to 54% and 46%, respectively, in 1999. The increase in product revenue in 2000 was fueled by a continuing strong demand for our life science products in all various product lines by new and existing customers.

**OTHER REVENUE** Other revenue decreased \$2.2 million, or 55.1%, to \$1.8 million in 2000 compared to \$4.0 million in 1999. This decrease was due to the completion of certain projects for early-stage research and development which were funded by grants from the German government and the Advanced Technology Program of the National Institute of Standards and Technologies in the United States. While we historically have obtained significant funding under grant awards for early-stage research and development activity, we anticipate this funding will be significantly reduced in the future.

**COST OF PRODUCT REVENUE (INCLUDING PROVISION FOR LOSS ON CONTRACT)** Cost of product revenue increased \$4.0 million, or 12.6%, to \$35.6 million in 2000 compared to \$31.6 million in 1999. The cost of product revenue as a percentage of product revenue was 47.6% in 2000 compared to 52.2% in 1999. This decrease is due to a combination of greater revenues from new life science products which have a lower cost, increased efficiencies in the manufacturing operations and lower material costs driven by an increase in volume discounts. During fourth quarter 2000, we took a \$1.1 million special charge against an unprofitable contract within our substance detection and pathogen identification business. We made considerable design changes to the systems to be delivered under this contract which increased the cost. The contract is expected to be completed near the end of 2001.

**SALES AND MARKETING** Sales and marketing expenses increased \$2.5 million, or 21.7%, to \$13.8 million in 2000 compared to \$11.3 million in 1999. The dollar increase was due to higher sales commissions earned by our direct sales force as a result of an increase in the number of units sold and the addition of new distribution subsidiaries not in operation during 1999. Sales and marketing expenses as a percentage of product revenues were 18.5% in 2000 and 18.7% in 1999.

**GENERAL AND ADMINISTRATIVE** General and administrative expenses increased \$1.6 million, or 48.3%, to \$5.1 million in 2000 compared to \$3.4 million in 1999. As a percentage of product revenues, general and administrative expenses were 6.8% in 2000 and 5.6% in 1999. The increase relates to certain non-cash charges to compensation expense related to our stock option grants as well as other costs related to being a public company.

**RESEARCH AND DEVELOPMENT** Research and development expenses increased \$4.9 million, or 32.3%, to \$20.0 million in 2000 compared to \$15.1 million in 1999. As a percentage of product revenues, research and development expenses increased to 26.8% in 2000 from 25.0% in 1999. The dollar increase in 2000 was due to increased staffing and the related personnel costs as well as late stage testing costs incurred for our new products scheduled for introduction in early 2001. We are investing heavily in proteomics and life-science systems integration in general and expect to introduce several new products in early March 2001, as well as in the second half of the year.

**PATENT LITIGATION COSTS** Patent litigation costs were \$303,000 in 2000. The increase reflects a revised estimate of our legal cost associated with our intellectual property litigation and reflects estimated assessments related to the on-going litigation.

**INTEREST AND OTHER INCOME (EXPENSES), NET** Interest and other income, net was \$1.6 million in 2000 compared to an interest and other expense, net of \$(777,000) in 1999. The difference is due to interest income earned on the additional funding raised in our equity offering during third quarter 2000 and the payoff of our outstanding short-term lines of credit both in the United States and Germany.

**INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES** Income from discontinued operations net of income taxes decreased \$189,000, or 50.8%, to \$184,000 in 2000 compared to \$373,000 in 1999. Income from discontinued operations is related to the disposal of our infrared sales group in early 2000.

**PROVISION FOR INCOME TAXES** Provision for income taxes was \$254,000 in 2000 compared to \$987,000 in 1999. The effective tax rate in 2000 was 10.9% which reflected a blended tax rate from the various countries in which we operate, a reduction in the valuation allowance in the United States as a result of future anticipated earnings, and a benefit on the revaluation of net deferred tax liabilities as a result of a reduction in enacted tax rates in Germany. The effective tax rate in 1999 was 52.9% which reflected a blended tax rate from the various countries in which we operate, benefits from the utilization of tax loss carryforwards in Germany, and an increase in the valuation allowance in the United States associated with tax loss carryforwards.

#### YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

**PRODUCT REVENUE** Total product revenue increased \$20.5 million, or 51.0%, to \$60.6 million in 1999 compared to \$40.2 million in 1998. Product revenue via affiliated distributors increased \$503,000, or 5.1%, to \$10.3 million in 1999 compared to \$9.8 million in 1998. Life science product revenue and substance detection and pathogen identification product revenue as a percentage of net revenue was 50.6% and 43.1%, respectively, in 1999 compared to 42.1% and 53.0%, respectively, in 1998. The increase in product revenue in 1999 was fueled by strong demand for our life science products by new and existing customers, led by our Fourier transform mass spectrometry, MALDI time-of-flight, and *esquire* product lines. Additionally, \$8.1 million of our 1999 substance detection and pathogen identification product revenue was due to the completion of a large non-recurring contract.

**OTHER REVENUE** Other revenue increased \$2.0 million, or 98.6%, to \$4.1 million in 1999 compared to \$2.0 million in 1998. This increase was due to additional grant funding for early stage research and development from the German government and from the Advanced Technology Program of the National Institute of Standards and Technologies in the United States.

**COST OF PRODUCT REVENUE** Cost of product revenue increased \$11.9 million, or 60.7%, to \$31.6 million in 1999 compared to \$19.7 million in 1998. The cost of product revenue as a percentage of product revenue was 52.2% in 1999 compared to 49.0% in 1998. The increase as a percentage of product revenue was due to lower revenue from our substance detection and pathogen identification product, which historically has a lower cost of product revenue than our life science products. Additionally, we have increased manufacturing capacity to meet future projected product sales growth. This increased capacity had an adverse effect on cost of product. We anticipate improved leverage of our fixed manufacturing costs, and declines in cost of product revenue as a percentage of sales, as our product revenue increases. We are also seeking to improve our gross margin by developing new, more integrated systems and higher margin consumables for the life science market.

**SALES AND MARKETING** Sales and marketing expenses increased \$3.9 million, or 52.6%, to \$11.3 million in 1999 compared to \$7.4 million in 1998. As a percentage of net revenues, sales and marketing expenses remained relatively consistent. The dollar increase was due to sales commissions and bonuses earned by our direct sales force as a result of an increase in the number of units sold and the expansion of our global distribution capabilities. The dollar increase was also due to an increase in sales personnel and the associated recruiting, training, travel, commissions, and office space costs necessary to support a larger sales organization.

**GENERAL AND ADMINISTRATIVE** General and administrative expenses increased \$1.2 million, or 54.2%, to \$3.4 million in 1999 compared to \$2.2 million in 1998. The dollar increases were due to increased staffing and personnel related costs incurred to manage and support our growth and the costs associated with the incorporation of our foreign subsidiary offices. As a percentage of net revenues, general and administrative expenses remained relatively consistent.

**RESEARCH AND DEVELOPMENT** Research and development expenses increased \$2.1 million, or 16.0%, to \$15.1 million in 1999 compared to \$13.0 million in 1998. As a percentage of net revenues, research and development decreased to 23.4% compared to 30.9%. The dollar increase in 1999 was due to increased staffing and the related personnel costs incurred for late stage testing of our new product introductions, including APEX III, BioTof II, *esquire*3000, MAP II/8, and OmniFLEX, in March 2000. These increased expenses represented a lower percentage of revenue due to the significant increase in revenues during fiscal 1999.

**PATENT LITIGATION COSTS** Patent litigation costs were \$538,000 in 1999. This increase reflects a revised estimate of our legal costs associated with our intellectual property litigation.

**INTEREST EXPENSE, NET** Interest expense increased \$6,000, or 0.7%, to \$907,000 in 1999 compared to \$901,000 in 1998. The interest expense is the result of our long- and short-term borrowings from banks in the United States and Germany.

**INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES** Income from discontinued operations net of income taxes decreased \$10,000, or 2.6%, to \$373,000 in 1999 compared to \$383,000 in 1998. Income from discontinued operations is related to the disposal of our infrared sales group in March 2000.

For information concerning the provision for income taxes as well as information regarding differences between effective tax rates and statutory rates, see Note 6, of the Notes to Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

Presently, we anticipate that our existing capital resources, including the approximately \$110 million net proceeds received from our equity offering during third quarter 2000, will meet our operating and investing needs through at least the end of 2001. Historically, we have financed our growth through a combination of cash provided from operations, debt financing and issuance of common stock. We utilized the proceeds of our initial public offering to repay short-term debt in the amount of approximately \$5 million and for general working capital. During 2000, net cash used in operating activities was \$202,000. Net cash provided by operating activities in 1999 was \$5.8 million, and cash used was \$6.4 million in 1998.

We used \$5.3 million of cash during the year for capital expenditures, \$4.4 in 1999 and \$2.9 in 1998. Such capital expenditures were made to improve productivity and expand manufacturing capacity. We expect to continue to make capital investments focused on enhancing the efficiency of our operations and supporting our growth. Also during 2001, we are planning on expanding our research and development and manufacturing facilities and infrastructure both in Massachusetts and Bremen, Germany.

As of December 31, 2000, we have available up to \$2.5 million under a revolving line of credit with a bank in the United States. As of December 31, 2000, there were no amounts outstanding. This line, which is secured by portions of our inventory, receivables and equipment in the United States, was used to provide working capital and expires July 31, 2001. We also maintain revolving lines of credit of approximately \$7.7 million with German banks. As of December 31, 2000, there were no amounts outstanding. Our German lines of credit are unsecured.

Our future capital uses and requirements depend on numerous factors, including our success in selling our existing products, our progress in research and development, our ability to introduce and sell new products, our sales and marketing expenses, our need to expand production capacity, costs associated with possible acquisitions, expenses associated with unforeseen litigation, regulatory changes and competition and technological developments in the market.

## STOCK OPTIONS

In February 2000, our board of directors adopted, and our stockholders approved, our 2000 Stock Option Plan. The plan provides for the issuance of up to 2,188,000 shares of common stock in connection with stock options or other awards. At December 31, 2000, we had outstanding options to purchase 831,600 shares of common stock at a weighted average exercise price of \$6.46 per share, which vest over three to five year periods.

## INFLATION

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

## RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In July 1999, the FASB issued Statement of Financial Accounting Standards No. 137, Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133 ("SFAS 137"). SFAS 137 deferred the effective date of SFAS 133 until the first fiscal year beginning after June 15, 2000. We will adopt the standard during January 2001. Management believes that SFAS 133 will not have a material effect on the financial position or results of operations of the Company.

## IMPACT OF FOREIGN CURRENCIES

We sell our products in many countries and a substantial portion of our sales and a portion of our costs and expenses are denominated in foreign currencies, especially in Euros. Historically, our realized foreign exchange gains and losses have not been material. Accordingly, we have not hedged our foreign currency position in the past. However, as we expand our sales internationally, we plan to evaluate our currency risks and we may enter into foreign exchange contracts from time to time to mitigate foreign currency exposure.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

Part of the information called for by this item is provided under the caption "Liquidity and Capital Resources" and "Impact of Foreign Currencies" under Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company does not use derivative financial instruments for trading or speculative purposes. However, the Company regularly invests excess cash in overnight repurchase agreements and interest-bearing investment-grade securities and short-term partnership funds all of which 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 since the Company's long-term debt has a fixed rate. The Company ensures the safety and preservation of invested funds by limiting default risks, market risk and reinvestment risk. The Company mitigates default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of the Company's interest sensitive financial instruments at December 31, 2000. Declines in interest rates over time will, however, reduce the Company's interest income.

## REPORT OF INDEPENDENT AUDITORS

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THE BOARD OF DIRECTORS

We have audited the accompanying consolidated balance sheets of Bruker Daltonics Inc. (the Company) as of December 31, 1999 and 2000, and the related combined/consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bruker Daltonics Inc. at December 31, 1999 and 2000, and the combined/consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

BOSTON, MASSACHUSETTS

MARCH 1, 2001

## CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except for share data)

	DECEMBER 31,	
	1999	2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,443	\$ 21,735
Short-term investments	—	72,894
Accounts receivable, less allowances for doubtful accounts of \$114 in 1999 and \$369 in 2000	12,204	11,626
Due from affiliated companies	—	706
Inventories	25,442	36,780
Deferred income taxes	899	2,378
Other assets	532	1,302
Total current assets	41,520	147,421
Property, plant and equipment, net	25,351	25,528
Intangible and other assets	386	2,335
Investments in other companies	52	9,270
Total assets	\$ 67,309	\$ 184,554
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term bank borrowings	\$ 2,496	\$ —
Accounts payable	6,661	7,601
Due to affiliated companies	1,496	—
Accrued expenses	3,806	3,976
Accrued payroll	1,742	1,561
Customer deposits	8,323	15,766
Warranty reserves	4,739	3,346
Provision for loss on contract	—	1,172
Income taxes payable	177	2,945
Total current liabilities	29,440	36,367
Deferred revenue	393	371
Long-term debt	12,844	12,037
Deferred income tax liabilities	8,786	7,475
Contingent liabilities	5,788	4,132
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 100,000,000 shares, issued and outstanding 45,500,000 shares in 1999 and 54,779,218 shares in 2000	455	548
Additional paid-in capital	6,045	118,014
Retained earnings	6,412	8,662
Accumulated other comprehensive loss	(2,854)	(3,052)
Total stockholders' equity	10,058	124,172
Total liabilities and stockholders' equity	\$ 67,309	\$ 184,554

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

# COMBINED / CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except share and per share data)

	YEAR ENDED DECEMBER 31.		
	1998	1999	2000
	COMBINED	CONSOLIDATED	CONSOLIDATED
Product revenue	\$ 40,157	\$ 60,620	\$ 74,772
Other revenue	2,050	4,070	1,830
Net revenue	42,207	64,690	76,602
Costs and operating expenses:			
Cost of product revenue	19,672	31,618	35,587
Provision for loss on contract	—	—	1,082
Sales and marketing	7,435	11,345	13,806
General and administrative	2,212	3,411	5,057
Research and development	13,049	15,138	20,033
Patent litigation costs	—	538	303
Total costs and operating expenses	42,368	62,050	75,868
Operating (loss) income from continuing operations	(161)	2,640	734
Other income (expense), net	174	130	(208)
Interest (expense) income, net	(901)	(907)	1,794
(Loss) income from continuing operations before provision for income taxes	(888)	1,863	2,320
Provision for income taxes	—	987	254
(Loss) income from continuing operations	(888)	876	2,066
Income from discontinued operations, net of income taxes	383	373	184
Net (loss) income	\$ (505)	\$ 1,249	\$ 2,250
Net (loss) income per share – basic and diluted:			
(Loss) income from continuing operations	\$ (0.02)	\$ 0.02	\$ 0.04
Income from discontinued operations, net of income taxes	0.01	0.01	0.00
Net (loss) income per share	\$ (0.01)	\$ 0.03	\$ 0.04
Shares used in computing net (loss) income per share – basic	45,500,000	45,500,000	49,269,313
Shares used in computing net (loss) income per share – diluted	45,500,000	45,500,000	49,921,979

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

# COMBINED / CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands)

	COMMON STOCK			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
	BRUKER DALTONICS INC.	BRUKER DALTONIK GMBH	ADDITIONAL PAID-IN CAPITAL			
Combined balance as of						
December 31, 1997	\$52	\$3,489	\$698	\$7,600	\$(1,969)	\$9,870
Issuance of common stock	403	—	5,347	—	—	5,750
Payments to stockholders in connection with reorganization of business	—	(3,489)	—	(1,932)	—	(5,421)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	—	646	646
Net loss	—	—	—	(505)	—	(505)
Net comprehensive income	—	—	—	—	—	141
Consolidated balance as of						
December 31, 1998	455	—	6,045	5,163	(1,323)	10,340
Comprehensive loss:						
Foreign currency translation adjustment	—	—	—	—	(1,531)	(1,531)
Net income	—	—	—	1,249	—	1,249
Net comprehensive loss	—	—	—	—	—	(282)
Consolidated balance as of						
December 31, 1999	455	—	6,045	6,412	(2,854)	10,058
Initial public offering proceeds, net of issuance costs	92	—	109,596	—	—	109,688
Issuance of common stock on acquisition of investment in other companies	1	—	2,192	—	—	2,193
Compensation expense related to stock options issued to non-employees	—	—	181	—	—	181
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	—	(198)	(198)
Net income	—	—	—	2,250	—	2,250
Net comprehensive income	—	—	—	—	—	2,052
Consolidated balance as of						
December 31, 2000	\$548	\$—	\$118,014	\$8,662	\$(3,052)	\$124,172

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

# COMBINED / CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollar amounts in thousands)

	YEAR ENDED DECEMBER 31.		
	1998	1999	2000
	COMBINED	CONSOLIDATED	CONSOLIDATED
<b>OPERATING ACTIVITIES</b>			
(Loss) income from continuing operations	\$ (888)	\$ 876	\$ 2,066
Adjustments to reconcile (loss) income from continuing operations to net cash (used in) provided by continuing operations:			
Depreciation and amortization	2,605	3,487	4,145
Deferred income taxes	526	875	(3,340)
Provision for loss on contract	—	—	1,082
Stock option compensation	—	—	181
Charge for purchase of in-process research and development	—	100	—
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(6,273)	(3,605)	499
Inventories	(1,802)	(10,265)	(13,028)
Other assets	(773)	419	(1,148)
Accounts payable and accrued expenses	(480)	6,374	1,739
Warranty reserve	1,759	2,034	(1,095)
Contingent liabilities	(367)	—	(1,219)
Income taxes payable	(526)	—	2,632
Deferred revenue	(282)	295	(22)
Customer deposits	66	4,680	7,237
Net cash (used in) provided by continuing operations	(6,435)	5,270	(271)
Net cash (used in) provided by discontinued operations	(9)	495	69
Net cash (used in) provided by operating activities	(6,444)	5,765	(202)
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment and other long lived assets	(2,978)	(4,563)	(5,581)
Purchase of short-term investments	—	—	(92,394)
Redemption of short-term investments	—	—	19,500
Acquisition of business, net of cash acquired	—	(200)	22
Investments in other companies	—	—	(7,075)
Net cash used in investing activities	(2,978)	(4,763)	(85,528)
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	14,213	—	—
Proceeds from short-term borrowings	2,604	1,000	2,510
Payments on short-term borrowings	(50)	(1,087)	(4,833)
Advances from (payments to) affiliated companies	(8,617)	444	(2,523)
Issuance of common stock, net of issuance cost	5,750	—	109,688
Payments to stockholders	(5,435)	—	—
Net cash provided by financing activities	8,465	357	104,842
Effect of exchange rate changes	71	(51)	180
Net change in cash and cash equivalents	(886)	1,308	19,292
Cash and cash equivalents at beginning of period	2,021	1,135	2,443
Cash and cash equivalents at end of period	\$ 1,135	\$ 2,443	\$ 21,735
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid for interest	\$ 1,019	\$ 1,232	\$ 610
Cash paid for taxes	153	464	202
<b>NON-CASH FINANCING ACTIVITIES</b>			
Issuance of common stock for investment in other company	—	—	2,193

1. DESCRIPTION OF BUSINESS

Bruker Daltonics Inc. and its wholly-owned subsidiaries (the "Company") design, manufacture and market proprietary life science systems based on its mass spectrometry core technology platforms. The Company also sells a broad range of field analytical systems for substance detection and pathogen identification. The Company maintains major technical centers in Europe, North America, and Japan. Bruker Daltonics allocates substantial capital and resources to research and development and is party to various collaborations and strategic alliances. The Company's diverse customer base includes pharmaceutical companies, biotechnology companies, proteomic companies, academic institutions and government agencies.

These financial statements represent the consolidated accounts of Bruker Daltonics Inc., and its wholly-owned subsidiaries as of December 31, 1999 and 2000 and for the years then ended, and the combined accounts of Bruker Daltonics Inc., and its affiliated companies for the year ended December 31, 1998 (see Note 3). All significant intercompany accounts and transactions have been eliminated in consolidation and combination, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of 90 days or less at date of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair market value at year end.

SHORT-TERM INVESTMENTS

The Company accounts for its short-term investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's investments, which are carried at fair value, consist of funds comprised of short-term money market and bond instruments and have been classified as available-for-sale at December 31, 2000.

CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to credit risk consist of cash and cash equivalents, short-term investments and accounts receivables. The risk with respect to cash and cash equivalents and short-term investments is minimized by the Company's policy of investing in short-term financial instruments issued by highly-rated financial institutions. The risk with respect to accounts receivable is minimized by the credit worthiness of the Company's customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have been within management's expectations. For the years ended December 31, 1998, 1999 and 2000, two customers accounted for an aggregate of 32%, 30% and 11%, respectively, of the Company's product revenue. Accounts receivables for these two customers accounted for an aggregate of 3% of total receivables as of December 31, 1999 and 2000.

INVENTORIES

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out ("FIFO") method.

Inventories include demonstration equipment which the Company offers to current and potential customers. The Company amortizes its demonstration equipment over a three year period. Amortization expense for demonstration equipment was approximately \$259,000, \$307,000 and \$952,000 for the years ended December 31, 1998, 1999, and 2000, respectively.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment which includes land, buildings, machinery and equipment, furniture and fixtures and leasehold improvements are stated at cost. Depreciable assets are being depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 years
Machinery and equipment	5-10 years
Furniture and fixtures	3-5 years
Leasehold improvements	Shorter of 15 years or the life of the lease

SOFTWARE COSTS

Purchased software is capitalized at cost and is amortized over the estimated useful life, generally three years. Software developed for use in the Company's products is expensed as incurred and is classified as research and development expense.

#### OTHER ASSETS

Other assets consist principally of patents and licenses. Patents, patent applications and rights are stated at acquisition cost. Amortization of patents is recorded using the straight-line method over the legal lives of the patents, generally for periods ranging up to ten years. Accumulated amortization of these assets was approximately \$1,121,000 and \$1,177,000 as of December 31, 1999 and 2000, respectively.

#### INVESTMENTS IN OTHER COMPANIES

Investment in other companies consists of equity securities of privately-held companies and is accounted for under the cost method. The Company's ownership interest in each of these individual companies is less than 20%.

#### LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment, in accordance with Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of," whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Assets are written-down to fair value when the carrying costs exceed this amount. Any impairment losses are determined based upon estimated future cash flows and fair values. To date, no such indicators of impairment have been identified.

#### WARRANTY COSTS

The Company 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 accompanying balance sheets.

#### CUSTOMER DEPOSITS

Under the terms and conditions of contracts with certain customers, the Company may require an advance deposit. These deposit amounts are recorded as a liability until revenue is recognized against the specific contract at time of acceptance of the system.

#### PATENT LITIGATION COSTS

The Company records charges for the costs it anticipates incurring in connection with litigation and claims against the Company when management can reasonably estimate these costs.

#### 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. 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.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, amounts due to/from affiliated companies and long-term debt. The carrying amounts of the Company's cash and cash equivalents, short-term investments, accounts receivable, accounts payable and amounts due to/from affiliated companies approximate fair value due to their short-term nature. The fair value of long-term debt is estimated based on current interest rates offered to the Company for financing arrangements with similar maturities. The recorded value of these financial instruments approximate their fair value at December 31, 1999 and 2000.

#### FOREIGN CURRENCY TRANSLATION

In accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," all balance sheet accounts of foreign subsidiaries are translated into United States dollars at the current exchange rate, and income statement items are translated at the average exchange rate for the period; resulting translation adjustments are made directly to accumulated other comprehensive income (loss) in stockholders' equity. Realized exchange gains and losses on foreign currency transactions are included in other income (expenses) and were immaterial in 1998 and 1999 and gains of approximately \$332,000 in 2000.

#### REVENUE RECOGNITION

Revenue is recognized from system sales, including hardware with embedded software, when a product is accepted by the customer, except when sold through an independent distributor, a strategic distribution partner or an unconsolidated Bruker affiliated distributor which assumes responsibility for installation, in which case the system sale is recognized when the products are shipped to the distributor and title has transferred to the distributor. Our distributors do not have price protection rights or rights to return, however our products are warranted to be free from defect for a period of, typically, one year. Revenue from accessories and parts is recognized upon shipment, and revenue from services when performed.

The Company also offers 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 revenue over the life of the agreements.

Other revenues, which are principally comprised of research and development grants, are recognized as grant work is performed.

The Company believes that its revenue recognition policies comply with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," and with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, "Software Revenue Recognition."

#### ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expenses included in sales and marketing were approximately \$452,000, \$364,000 and \$793,000 for the years ended December 31, 1998, 1999, and 2000, respectively.

#### INCOME TAXES

The Company provides for income taxes under the liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

#### ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of the statement require the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company is required to implement the statement in the first quarter of fiscal 2001. The Company does not believe that this new accounting standard will have a material impact on the financial statements.

#### RECLASSIFICATIONS

Certain amounts in the accompanying combined / consolidated financial statements have been reclassified to conform with the 2000 presentation.

### 3. ACQUISITIONS

#### BRUKER DALTONIK GMBH

Effective December 21, 1998, Bruker Daltonics Inc. acquired all the equity interests of Bruker Daltonik GmbH, formerly known as Bruker Franzen Analytik GmbH (a manufacturer of mass spectrometers), for \$5,435,012 funded through the issuance of 5,750,000 shares of common stock for \$1.00 per share to existing stockholders. The operations of Bruker Daltonik GmbH and its subsidiary, Bruker Saxonia Analytik GmbH, based in Germany, are included in the 1998 combined statements of operations for comparative purposes. The transaction represented an exchange between entities under common control and, accordingly, the assets acquired and liabilities assumed have been accounted for at historical cost in a manner similar to a pooling-of-interests.

#### PROTEIGENE, INC.

In December 1999, the Company acquired a 49% interest in ProteiGene, Inc. from an officer of the Company for \$50,000, the estimated fair market value. In March 2000, the Company acquired the remaining 51% interest in ProteiGene, Inc. from an unrelated party for \$26,000, the estimated fair market value. ProteiGene is a bioanalytical research and development company specializing in applications of mass spectrometry and bioinformatics in medical and microbiologic diagnostics. ProteiGene is developing products to be used in the care of patients suffering from routine and exotic infections, organ transplant rejection, and genetic and environmental diseases including cancers and auto-immune conditions where standard microbiologic and histopathologic diagnostics have proven ineffective.

#### VIKING INSTRUMENTS CORPORATION

On June 22, 1999, the Company purchased the assets of Viking Instruments Corporation, a developer and manufacturer of transportable gas chromatograph mass spectrometers (GC/MS). These transportable GC/MS instruments are used for laboratory and field analysis of soil, air and water for the identification and quantification of a wide variety of organic compounds and pollutants. The acquisition cost was \$150,000, and the results of operations are included in the accompanying consolidated financial statements from the date of acquisition. In connection with the acquisition, \$100,000 was expensed as purchased in-process research and development, \$25,000 was allocated to core technology, and classified as an intangible, \$20,000 was allocated to inventory and \$5,000 was allocated to fixed assets. The amortization period is five years for the intangibles and three to five years for the fixed assets.

The \$100,000 in-process research and development was attributed to the Viking 573, a transportable gas chromatograph mass spectrometer, and supported by a discounted probable cash flow analysis on a project-by-project basis modified to reflect the stage of completion of the in-process research and development expenditures. As of June 22, 1999, the feasibility of the acquired technology had not been established and the acquired technology had no future alternative uses.

#### GENEVA PROTEOMICS, INC.

In November 2000, the company acquired 909,091 shares of Series B Preferred Stock of Geneva Proteomics, Inc. in exchange for \$7 million in cash and 79,218 shares of the Company's common stock. The acquired securities are included in investments in other companies and are accounted for under the cost method.

#### 4. INVENTORIES

The components of inventories were as follows:

	DECEMBER 31,	
	1999	2000
	(in thousands)	
Raw materials	\$5,849	\$14,391
Work-in-process	10,777	13,690
Finished goods	8,816	8,699
	<u>\$25,442</u>	<u>\$36,780</u>

#### 5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

	DECEMBER 31,	
	1999	2000
	(in thousands)	
Land	\$1,480	\$2,430
Buildings	24,165	22,403
Office furniture, machinery, and equipment	18,328	20,408
Leasehold improvements	11	16
	43,984	45,257
Less accumulated depreciation and amortization	<u>(18,633)</u>	<u>(19,729)</u>
	<u>\$25,351</u>	<u>\$25,528</u>

Depreciation expense for the years ended December 31, 1998, 1999 and 2000 was approximately \$2,465,000 \$3,317,000 and \$3,176,000, respectively. Amortization of leasehold improvements is included with depreciation in the accompanying financial statements.

#### 6. INCOME TAXES

The components of income (loss) from continuing operations before provision for income taxes consisted of the following for the years ended December 31, 1998, 1999, and 2000:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(in thousands)		
United States	\$230	\$(1,527)	\$(24)
Foreign	(1,118)	3,390	2,344
	<u>\$(888)</u>	<u>\$1,863</u>	<u>\$2,320</u>

Significant components of the provision (benefit) for income taxes for the years ended December 31, 1998, 1999, and 2000 were as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(in thousands)		
Current:			
Federal	\$97	\$—	\$—
State	11	—	3
Foreign	—	72	3,591
	<u>108</u>	<u>72</u>	<u>3,594</u>
Deferred:			
Federal	(26)	—	(792)
State	(82)	—	(146)
Foreign	—	915	(2,402)
	<u>(108)</u>	<u>915</u>	<u>(3,340)</u>
Total income taxes on continuing operations	<u>\$ —</u>	<u>\$987</u>	<u>\$254</u>

The reconciliation of income tax computed at the United States federal statutory tax rate to income tax expense for the years ended December 31, 1998, 1999, and 2000 were as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Income tax (benefit) at statutory rate	34.0%	34.0%	34.0%
Add (deduct):			
Change in valuation allowance	(30.5)	35.6	(32.9)
Change in enacted rates	—	—	(42.3)
Foreign income tax at differing rates	—	(8.9)	58.2
Other	(3.5)	(7.8)	(6.1)
	—	52.9%	10.9%

The components of the Company's deferred income taxes were as follows:

	DECEMBER 31,	
	1999	2000
	(in thousands)	
Deferred tax assets:		
Inventory	\$880	\$1,353
Warranty accrual	257	128
Allowance for doubtful accounts	11	11
R&D and other tax credit carryforwards	225	1,234
Net operating loss carryforward	171	940
Other	456	67
	2,000	3,733
Valuation allowance	(763)	—
Net deferred tax assets	1,237	3,733
Deferred tax liabilities:		
Patent litigation costs	(4,023)	(3,513)
Excess tax over book depreciation	(4,939)	(3,487)
Other	(162)	540
Total deferred tax liabilities	(9,124)	7,540
Net deferred tax liability	\$ (7,887)	\$ (3,807)

For financial reporting purposes, a valuation allowance at December 31, 1999 was recognized to offset deferred tax assets since uncertainty existed with respect to future realization of deferred tax assets. No valuation allowance was necessary at December 31, 2000.

As of December 31, 2000, research and development tax credits and net operating loss carryforwards were available to reduce future federal, state and foreign tax liabilities. These credits expire at various dates through the year 2020.

Undistributed earnings of foreign subsidiaries aggregated approximately \$9.7 million at December 31, 2000, which, under existing law, will not be subject to United States tax until distributed as dividends. Because the earnings have been or are intended to be indefinitely reinvested in foreign operations, no provision has been made for United States income taxes that may be applicable thereto.

## 7. FINANCING ARRANGEMENTS

In August 1999, the Company entered into a revolving line of credit with Citizens Bank in the amount of \$2,500,000. This line, which is secured by certain inventory, receivables and equipment in the United States, is used to provide working capital and expires July 31, 2001. Interest on this line of credit is at the lower of LIBOR plus 175 basis points (8.15% at December 31, 2000) or the Prime Rate (9.50% at December 31, 2000). There is no commitment fee on the unused portion of the line. As of December 31, 1999 and 2000, the Company had \$1,000,000 and \$0 outstanding on this line of credit.

The Company also maintained revolving lines of credit in 1999 and 2000, respectively, of approximately \$6,200,000 and \$7,700,000, among German banks at interest rates ranging between 6.45% and 6.75%. At December 31, 1999 and 2000, \$1,496,350 and \$0, respectively, were outstanding against these revolving lines of credit. The lines are secured by certain inventory and accounts receivable in Germany and are renewable in June 2001.

The Company has three notes payable with outstanding balances aggregating \$12,843,582 and \$12,036,591 as of December 31, 1999 and 2000, respectively. One note (\$5,137,434 and \$4,814,636 at December 31, 1999 and 2000, respectively), with an interest rate of 5.10%, is payable in full in 2003. The other two notes (\$7,706,148 and \$7,221,955 in the aggregate at December 31, 1999 and 2000, respectively), have an interest rate of 4.65% and are due in 2008. Interest is due monthly and all obligations are collateralized by the land and buildings of Bruker Daltonik GmbH.

## 8. STOCKHOLDER'S EQUITY

### INITIAL PUBLIC OFFERING

On August 3, 2000 the company issued 9,200,000 shares of its common stock for \$119,600,000 (or \$13 per share). The company incurred \$9,912,000 in offering costs as a result of this transaction.

### PREFERRED STOCK

At December 31, 2000, 5,000,000 shares of Blank Check Preferred Stock with a stated par value of \$0.01 per share were authorized, none of which have been issued.

### STOCK SPLIT

On February 14, 2000, the Board of Directors of Bruker Daltonics Inc. authorized a seven-for-one stock split in the form of a stock dividend. Stockholders of record received six additional shares of common stock for every share they owned. All common shares and per share data in the accompanying financial statements have been restated to reflect the stock split.

### STOCK OPTIONS

In February 2000, the Board of Directors adopted and the Stockholders approved the 2000 Stock Option Plan ("the Plan"). The Plan provides for the issuance of up to 2,188,000 shares of common stock in connection with awards under the Plan. The Plan allows a committee of the Board of Directors (the "Committee") 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 rewards, the amount of the awards, and other terms and conditions of the award. During the year ended December 31, 2000, the Committee granted stock options for 871,385 shares of common stock, which vest over three-to-five year periods.

Stock option activity for the year ended December 31, 2000 is as follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1999	—	—
Granted	871,385	\$ 6.41
Exercised	—	—
Forfeited	39,785	5.27
Outstanding at December 31, 2000	831,600	\$ 6.46
Exercisable at December 31, 2000	—	
The weighted average fair value of options granted during the year		\$ 1.76

The following table summarizes information about stock options outstanding at December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING AT DECEMBER 31, 2000	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS
\$5.27 – \$8.00	755,350	9.16
\$17.875	76,250	9.91
	831,600	9.23

The Company accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and has adopted the disclosure-only alternative of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under APB 25, because the exercise price of the Company's stock options equaled the fair market value of the underlying stock on the date of grant, no compensation expense was recognized.

Stock options granted to non-employees, including Scientific Advisory Board Members, are accounted for in accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services," which requires the value of such options to be remeasured as they vest over a performance period. The fair value of such options is determined using the Black-Scholes model and the resulting charge is recognized as the related services are performed. The Company has incurred approximately \$181,000 of net compensation expense relating to non-employee grants during the year ended December 31, 2000.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if Bruker Daltonics has accounted for its employee stock options under the fair value method of the Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 2000: risk-free interest rates ranging from 5.45% to 6.65%; expected dividend yield of 0%; volatility factor of 0.151 to 0.386; and a weighted-average expected life of the options of three-to-five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of stock options is amortized to expense over the options' respective vesting periods and the estimated fair value of shares issued under the Company's stock option plan has been determined based on the fair value at date of grant as defined by SFAS 123. The Company's pro forma results for the year ended December 31, 2000 would have been as follows:

Pro forma net income (in thousands)	\$ 2,089
Pro forma earnings per common share:	
Basic	\$ 0.04
Diluted	\$ 0.04

## 9. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one business segment and engages in the design, manufacturing and marketing of proprietary life science systems, process analysis systems, and analytical instruments based primarily on mass spectrometry technology.

### GEOGRAPHIC AREAS

Information concerning principal geographic areas is as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(in thousands)		
<b>NET PRODUCT REVENUES FROM EXTERNAL CUSTOMERS <sup>(1)</sup></b>			
Germany	\$ 26,621	\$ 31,695	\$ 38,862
United States	13,536	22,166	22,913
Other	—	6,759	12,997
	<u>\$ 40,157</u>	<u>\$ 60,620</u>	<u>\$ 74,772</u>

<sup>(1)</sup> Net product revenues are attributable to geographic areas based on the region of sale.

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(in thousands)		
<b>LONG-LIVED ASSETS (EXCLUDING INTANGIBLE ASSETS)</b>			
Germany	\$ 28,037	\$ 24,284	\$ 23,761
United States	328	484	1,653
Other	—	673	567
	<u>\$ 28,365</u>	<u>\$ 25,441</u>	<u>\$ 25,981</u>
<b>NET ASSETS</b>			
Germany	\$ 9,307	\$ 11,320	\$ 15,357
United States	6,822	5,294	117,539
Other	—	357	(1,397)
	<u>16,129</u>	<u>16,971</u>	<u>131,499</u>
Elimination entries	<u>(5,789)</u>	<u>(6,913)</u>	<u>(7,327)</u>
	<u>\$ 10,340</u>	<u>\$ 10,058</u>	<u>\$ 124,172</u>

## 10. DISCONTINUED OPERATIONS

In 1999, the Company decided to discontinue its Fourier Transform-Infrared (FT-IR) business. The FT-IR business unit sells and services FT-IR instruments to a variety of markets outside the Company's core technology platform of mass spectrometry. The Company completed the sale of its FT-IR business to Bruker Optik GmbH, an affiliated entity, in the first half of 2000 for a price, which approximates the net book value of the assets and liabilities of the business.

Summary results for the discontinued operations for the years ended December 31, 1998, 1999, and 2000 are as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
		(in thousands)	
Net product revenues	\$2,853	\$2,742	\$1,223
Total costs and expenses	(2,214)	(2,120)	(880)
Provision for income taxes	(256)	(249)	(159)
Income from discontinued operations	\$383	\$373	\$184

The assets and liabilities of the discontinued operations as of December 31, 1999 consisted of inventories of \$32,000 and accounts payable of \$147,000.

## 11. RELATED-PARTY TRANSACTIONS

The Company is affiliated, through common stockholders, with several other entities which use the Bruker name. The Company and its affiliates have entered into a sharing agreement which provides for the sharing of specified intellectual property rights, services, facilities and other related items.

The Company recognized sales to affiliated entities of approximately \$9,805,000 in 1998, \$10,307,000 in 1999 and \$9,378,000 in 2000 and purchases from affiliated entities of approximately \$3,914,000 in 1998, \$3,209,000 in 1999 and \$5,627,000 in 2000.

In 1998, 1999, and 2000, various Bruker affiliates provided administrative and other services (including office space-see note 13) to the Company at a cost of approximately \$227,000, \$437,000, and \$443,000 respectively, based on its assessment of the estimated fair market value of such services.

In 2000, the Company purchased land for \$742,000 from a principal shareholder which estimated fair market value.

## 12. EMPLOYEE BENEFIT PLANS

The Company maintains or sponsors various defined contribution retirement plans that cover domestic and international employees. The Company may make contributions to these plans at its discretion. Retirement benefits earned are generally based on years of service and compensation during active employment. Eligibility is generally determined in accordance with local statutory requirements. However, the level of benefits and terms of vesting may vary among plans. The Company contributed approximately \$66,000, \$123,000, and \$199,000 in 1998, 1999, and 2000, respectively.

## 13. COMMITMENTS AND CONTINGENCIES

### LICENSE AGREEMENTS

The Company has entered into license agreements allowing the Company to utilize certain patents. If these patents are used in connection with a commercial product sale, the Company pays royalties ranging from 0.15% to 5.00% on the related product revenues. Licensing fees for the years ended December 31, 1998, 1999, and 2000 were approximately \$146,000, \$178,000, and \$238,000, respectively.

### GRANTS

The Company had a grant from the National Institute of Standards and Technology (NIST) Advanced Technology Program, which commenced on March 1, 1995 and ran through February 28, 2000. This grant was for the development of a DNA sequencing Time-of-Flight (TOF) mass spectrometer with a total project cost of \$7 million, of which \$3.5 million will be reimbursed from NIST. The Company's expenditures were \$1.3 million, \$2.1 million, and \$703,000 in 1998, 1999, and 2000, respectively. Amounts reimbursed from NIST were approximately \$594,000, \$1 million, and \$226,000 in 1998, 1999, and 2000, respectively, and are classified in other revenues.

The Company's wholly-owned subsidiary, Bruker Daltonik GmbH and its subsidiary Bruker Saxonia Analytik GmbH are the recipients of six grants from German government authorities. The grants were made in connection with the Company's development of specific spectrometers and components of spectrometers. Total grants awarded amount to \$4.5 million and expire through December 31, 2001. Amounts received under these grants during 1998, 1999, and 2000 totaled \$1.5 million, \$3 million, and \$1.2 million, respectively, and are classified in other revenues. Total expenditures related to these grants were \$3 million, \$3.2 million, and \$2.7 million in 1998, 1999, and 2000, respectively.

### LEGAL

The Company's wholly-owned subsidiary, Bruker Daltonik GmbH, has a \$5.8 million and \$4.1 million accrued liability at December 31, 1999 and 2000, respectively, related to certain patent infringement litigation filed by a competitor. In 1997, the competitor initiated an action in the United States District Court of Massachusetts alleging patent infringement against the Company and Agilent (formerly a division of Hewlett-Packard). The competitor has also filed a request for an investigation of its patent infringement claims with the United States International Trade Commission (ITC) and has filed suit against the Company in Germany, France, and the United Kingdom.

In 1998, the ITC found in favor of the Company and in 1999 the Court of Appeals for the Federal Circuit confirmed, in part, the ITC decision in favor of the Company. The Company has filed counterclaims in relation to these patent claims and in 1999 filed an anti-trust suit against the competitor in Massachusetts Federal Court. The Company believes that it has a meritorious defense to the competitor's claims and intends to vigorously defend itself.

Based on a review of the current facts and circumstances, management of the Company and its subsidiary believe that the amount of the accrued liability is a reasonable estimate of the exposure to loss associated with these matters, representing, principally, anticipated legal fees. While acknowledging the uncertainties of litigation, the Company believes that these matters will be resolved without a material effect on the Company's financial position or results of operations. However, an unfavorable outcome of these matters could result in a material adverse impact on the Company's financial statements, although an estimate of such impact cannot be made.

Other lawsuits, claims and proceedings of a nature considered normal to its businesses are pending against the Company and its subsidiary. The Company believes the outcome of these proceedings will not have a material impact on the Company's financial position or results of operations.

#### 14. QUARTERLY INFORMATION (UNAUDITED)

A summary of operating results for the quarterly periods in the two years ended December 31, 2000 is set forth below:

	QUARTER ENDED				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
YEAR ENDED DECEMBER 31, 2000 (in thousands, except per share data)					
Net revenues	\$14,599	\$17,523	\$22,690	\$21,790	\$76,602
Operating income (loss) from continuing operations	450	448	577	(741)	734
Income from continuing operations	137	118	581	1,230	2,066
Income from discontinued operations, net of income tax	37	95	52	—	184
Net income	174	213	633	1,230	2,250
Net income per share – basic and diluted					
Income from continuing operations	\$0.00	\$0.01	\$0.01	\$0.02	\$0.04
Income from discontinued operations, net of income tax	0.00	0.00	0.00	0.00	0.00
Net income	\$0.00	\$0.01	\$0.01	\$0.02	\$0.04

During the quarter ended December 31, 2000, the Company recorded a provision for loss on contract of \$1.1 million.

	QUARTER ENDED				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
YEAR ENDED DECEMBER 31, 1999 (in thousands, except per share data)					
Net revenues	\$11,898	\$15,687	\$18,007	\$19,098	\$64,690
Operating income (loss) from continuing operations	(99)	465	1,064	1,210	2,640
Income (loss) from continuing operations	(106)	137	394	451	876
Income from discontinued operations, net of income tax	90	101	75	107	373
Net income (loss)	(16)	238	469	558	1,249
Net income per share – basic and diluted					
Income from continuing operations	\$0.00	\$0.01	\$0.01	\$0.01	\$0.02
Income from discontinued operations, net of income tax	0.00	0.00	0.00	0.00	0.01
Net income	\$0.00	\$0.01	\$0.01	\$0.01	\$0.03

## EXECUTIVE OFFICERS AND DIRECTORS

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**FRANK H. LAUKIEN, PH.D.**  
CHAIRMAN, PRESIDENT, AND  
CHIEF EXECUTIVE OFFICER  
OF BRUKER DALTONICS INC.

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MANAGING DIRECTOR OF  
BRUKER SAXONIA ANALYTIK  
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MANAGING DIRECTOR OF  
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