BROOKS AUTOMATION INC
Form 10-Q
May 08, 2014
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## UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2014
OR
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from $\qquad$ to $\qquad$ Commission File Number 0-25434

BROOKS AUTOMATION, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
15 Elizabeth Drive
Chelmsford, Massachusetts
(Address of principal executive offices)
01824
(Zip Code)
Registrant's telephone number, including area code: (978) 262-2400
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No * Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No *
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer $x$
Accelerated filer

Non-accelerated filer $\quad{ }^{\quad}$ (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule $12 \mathrm{~b}-2$ of the Exchange
Act). Yes ${ }^{*}$ No $x$
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, April 30, 2014: common stock, $\$ 0.01$ par value and $66,806,263$ shares outstanding.

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## PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
BROOKS AUTOMATION, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)
(In thousands, except share and per share data)

|  | March 31, | September 30, |
| :--- | :--- | :--- |
| Assets | 2014 | 2013 |
| Current assets |  |  |
| Cash and cash equivalents | $\$ 85,281$ | $\$ 82,971$ |
| Restricted cash | - | 177 |
| Marketable securities | 50,274 | 45,900 |
| Accounts receivable, net | 83,440 | 77,483 |
| Inventories | 93,750 | 94,411 |
| Deferred tax assets | 16,082 | 16,839 |
| Assets held for sale | 28,023 | 27,778 |
| Prepaid expenses and other current assets | 12,489 | 9,030 |
| Total current assets | 369,339 | 354,589 |
| Property, plant and equipment, net | 52,759 | 47,506 |
| Long-term marketable securities | 56,668 | 44,491 |
| Long-term deferred tax assets | 97,422 | 99,146 |
| Goodwill | 97,863 | 97,924 |
| Intangible assets, net | 55,124 | 60,088 |
| Equity method investments | 30,342 | 25,687 |
| Other assets | 7,704 | 7,332 |
| Total assets | $\$ 767,221$ | $\$ 736,763$ |
| Liabilities and equity |  |  |
| Current liabilities | $\$ 35,672$ | $\$ 35,392$ |
| Accounts payable | 881 | - |
| Capital lease obligation | 33,116 | 19,610 |
| Deferred revenue | 6,319 | 7,260 |
| Accrued warranty and retrofit costs | 16,992 | 14,225 |
| Accrued compensation and benefits | 1,552 |  |
| Accrued restructuring costs | 1,246 | 1,072 |
| Accrued income taxes payable | 107 | 132 |
| Liabilities held for sale | 16,979 | 13,453 |
| Accrued expenses and other current liabilities | 112,864 | 92,561 |
| Total current liabilities | 7,656 | - |
| Long-term capital lease obligation | 7,673 | 7,036 |
| Long-term tax liabilities | 837 | 815 |
| Long-term pension liability | 3,790 | 3,695 |
| Other long-term liabilities | 132,820 | 104,107 |
| Total liabilities |  |  |
| Commitments and contingencies (Note 18$)$ | - |  |
| Equity | - |  |
| Preferred stock, $\$ 0.01$ par value, $1,000,000$ shares authorized, no shares issued or |  |  |
| outstanding |  |  |

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Common stock, $\$ 0.01$ par value, $125,000,000$ shares authorized, $80,268,132$ shares issued and 66,806,263 shares outstanding at March 31, 2014, 80,039,104 shares issued 803 800
and 66,577,235 shares outstanding at September 30, 2013
Additional paid-in capital 1,831,802 1,825,499

Accumulated other comprehensive income
21,873 22,604

Treasury stock at cost, $13,461,869$ shares
(200,956 ) (200,956 )
Accumulated deficit
(1,019,945 ) (1,015,991 )
Total Brooks Automation, Inc. stockholders' equity
633,577 631,956
Noncontrolling interest in subsidiaries
Total equity
824
700
Total liabilities and equity
634,401 632,656

The accompanying notes are an integral part of these unaudited consolidated financial statements. 3

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## BROOKS AUTOMATION, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(In thousands, except per share data)

|  | Three months ended March 31, |  | Six months ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue |  |  |  |  |  |  |
| Product | \$ 102,534 | \$88,652 |  | \$ 195,664 |  | \$ 159,680 |
| Services | 23,366 | 20,830 |  | 47,308 |  | 41,308 |
| Total revenue | 125,900 | 109,482 |  | 242,972 |  | 200,988 |
| Cost of revenue |  |  |  |  |  |  |
| Product | 64,786 | 60,685 |  | 125,522 |  | 111,645 |
| Services | 16,816 | 15,714 |  | 32,261 |  | 29,979 |
| Total cost of revenue | 81,602 | 76,399 |  | 157,783 |  | 141,624 |
| Gross profit | 44,298 | 33,083 |  | 85,189 |  | 59,364 |
| Operating expenses |  |  |  |  |  |  |
| Research and development | 12,493 | 11,333 |  | 25,044 |  | 22,237 |
| Selling, general and administrative | 28,637 | 24,169 |  | 54,772 |  | 49,324 |
| Restructuring and other charges | 772 | 751 |  | 1,519 |  | 5,441 |
| Total operating expenses | 41,902 | 36,253 |  | 81,335 |  | 77,002 |
| Operating income (loss) | 2,396 | (3,170 | ) | 3,854 |  | (17,638 |
| Interest income | 258 | 265 |  | 504 |  | 540 |
| Interest expense | - | - |  | - |  | (1 |
| Other income (expense), net | 56 | 77 |  | 315 |  | (16 |
| Income (loss) before income taxes and equity in earnings (losses) of equity method investments | 2,710 | (2,828 | ) | 4,673 |  | (17,115 |
| Income tax provision (benefit) | 1,117 | 327 |  | 1,910 |  | (3,559 |
| Income (loss) before equity in earnings (losses) of equity method investments | 1,593 | (3,155 | ) | 2,763 |  | (13,556 |
| Equity in earnings (losses) of equity method investments | 510 | (10 | ) | 1,259 |  | (16 |
| Income (loss) from continuing operations | 2,103 | (3,165 | ) | 4,022 |  | (13,572 |
| Income from discontinued operations, net of tax | 1,162 | 2,654 |  | 2,739 |  | 3,842 |
| Net income (loss) | 3,265 | (511 | ) | 6,761 |  | (9,730 |
| Net income attributable to noncontrolling interests | (76 | ) (27 | ) | (124 | ) | (44 |
| Net income (loss) attributable to Brooks Automation, Inc. | \$3,189 | \$(538 | ) | \$6,637 |  | \$(9,774 |
| Basic net income (loss) per share attributable to Brooks Automation, Inc. common stockholders: |  |  |  |  |  |  |
| Net income (loss) from continuing operations | \$0.03 | \$(0.05 | ) | \$0.06 |  | \$(0.21 |
| Net income from discontinued operations, net | 0.02 | 0.04 |  | 0.04 |  | 0.06 |


| Basic net income (loss) per share attributable to $\$ 0.05$ <br> Brooks Automation, Inc. <br> Diluted net income (loss) per share attributable <br> to Brooks Automation, Inc. common <br> stockholders: | $\$(0.01$ | ) $\$ 0.10$ | $\$(0.15$ |
| :--- | :--- | :--- | :--- |
| Net income (loss) from continuing operations | $\$ 0.03$ | $\$(0.05$ | $) \$ 0.06$ |

Shares used in computing earnings (loss) per
share:

| Basic | 66,646 | 65,889 | 66,499 | 65,726 |
| :--- | :--- | :--- | :--- | :--- |
| Diluted | 67,505 | 65,889 | 67,383 | 65,726 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.
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BROOKS AUTOMATION, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(In thousands)

|  | Three months ended March 31, |  |  | Six months ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2014 |  | 2013 |  | 2014 |  | 2013 |
| Net income (loss) | \$3,265 |  | \$(511 | ) | \$6,761 |  | \$(9,730 |
| Comprehensive income (loss): |  |  |  |  |  |  |  |
| Change in cumulative translation adjustment | (547 | ) | (6,908 | ) | (841 | ) | (6,378 |
| Change in unrealized gain (loss) on marketable securities | 22 |  | (23 | ) | 21 |  | (152 |
| Change in unrealized gain (loss) on cash flow hedges | (37 | ) | - |  | 68 |  | - |
| Actuarial gain | 10 |  | 23 |  | 21 |  | 313 |
| Pension settlement | - |  | - |  | - |  | 87 |
| Comprehensive income (loss) | 2,713 |  | (7,419 | ) | 6,030 |  | (15,860 |
| Comprehensive income attributable to noncontrolling interests | (76 | ) | (27 | ) | (124 | ) | (44 |
| Comprehensive income (loss) attributable to Brooks Automation, Inc. | \$2,637 |  | \$(7,446 | ) | \$5,906 |  | \$(15,904 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.
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## BROOKS AUTOMATION, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(In thousands)

Cash flows from operating activities
Net income (loss)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:
Depreciation and amortization
Impairment of assets
Stock-based compensation
Amortization of premium on marketable securities
Undistributed (earnings) losses of equity method investments
Deferred income tax provision (benefit)
Pension settlement
Loss (gain) on disposal of long-lived assets

| Six months ended March 31, <br> 2014 | 2013 |  |
| :--- | :--- | :--- |
|  |  |  |
| $\$ 6,761$ | $\$(9,730$ |  |
|  |  |  |
|  |  |  |
| 11,170 | 12,443 |  |
| 398 | - |  |
| 6,516 | 5,010 |  |
| 610 | 661 | 16 |
| 1,259 | $(3,387$ |  |
| 2,269 | 87 |  |
| -39 | $(150$ |  |

Changes in operating assets and liabilities, net of acquisitions and disposals:
Accounts receivable
Inventories
Prepaid expenses and other current assets
(6,057
) 9,489
276
13,734
Accounts payable
1,546
(4,305
Deferred revenue
Accrued warranty and retrofit costs
Accrued compensation and benefits
Accrued restructuring costs
Accrued expenses and other current liabilities
Net cash provided by operating activities
248
13,408
(3,260
3,711
(951 ) (1,154
(2,702
195

Cash flows from investing activities
Purchases of property, plant and equipment
Purchases of marketable securities
Sale/maturity of marketable securities
2,730
) $(3,914$

Other investment
Acquisition, net of cash acquired
Proceeds from the sale of property, plant and equipment
Payment of deferred leasing cost
Decrease in restricted cash
141
(2,194
16,744

Net cash used in investing activities
177
) (1,578 )
$\left.\begin{array}{lll}(2,696 & ) & (1,578 \\ (63,561 & ) & (39,269\end{array}\right)$

Cash flows from financing activities
Proceeds from issuance of common stock, net of issuance costs
Common stock dividend paid
Net cash used in financing activities
Effects of exchange rate changes on cash and cash equivalents
Net increase in cash and cash equivalents
Cash and cash equivalents, beginning of period
Cash and cash equivalents, end of period
46,551
(4,000
) -
(59,005 )
$\begin{array}{ll}- & (59,00 \\ - & 2,368\end{array}$

- $\quad(2,076$
(23,529
763
) (619 )

| 967 | 969 | $(10,672$ |
| :--- | :--- | :--- |
| $(10,800$ | $)$ | $(9,703$ |
| $(9,833$ | $(940$ | $)$ |
| 21 | 5,482 |  |
| 2,310 | 54,639 |  |
| 82,971 | $\$ 60,121$ |  |
| $\$ 85,281$ |  |  |

Supplemental disclosure of non-cash investing and financing activities:
Acquisition of buildings and land through capital lease \$8,537 \$-
The accompanying notes are an integral part of these unaudited consolidated financial statements. 6

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## BROOKS AUTOMATION, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## 1. Basis of Presentation

The unaudited consolidated financial statements of Brooks Automation, Inc. and its subsidiaries ("Brooks" or the "Company") included herein have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. All intercompany accounts and transactions have been eliminated. In the opinion of management, all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial position results of operations for the periods presented have been reflected. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year. In the second quarter of 2014, the Company determined that its Granville-Phillips Gas Analysis \& Vacuum Measurement ("Granville-Phillips") business met the criteria to be reported as a discontinued operation. As a result, the Company's historical financial statements have been revised to present the operating results of Granville-Phillips as a discontinued operation. The results of operations from the Granville-Phillips business are presented as "Income from discontinued operations, net of tax" in the Consolidated Statements of Operations. Assets and liabilities identifiable within the Granville-Phillips business are reported as "Assets held for sale" and "Liabilities held for sale," respectively, in the Consolidated Balance Sheets. The discussion in the notes to these consolidated statements, unless otherwise noted, relate solely to the Company's continuing operations (See Note 3).
Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (the "SEC") for the fiscal year ended September 30, 2013 (the "2013 Annual Report on Form 10-K").
Use of Estimates
The preparation of financial statements in conformity with GAAP 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 the reported amounts of revenue and expenses during the reporting period. Significant estimates are associated with accounts receivable, inventories, intangible assets, goodwill, deferred income taxes, warranty obligations, revenue recognized using the percentage of completion method and stock-based compensation expense on performance-based awards. The Company bases its estimates on historical experience and various other assumptions, including in certain circumstances future projections, that management believes to be reasonable under the circumstances. Although the Company regularly assesses these estimates, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known. Recently Enacted Accounting Pronouncements
In July 2013, the Financial Accounting Standards Board ("FASB") issued an amendment to the accounting guidance for presentation of unrecognized tax benefits. The prior guidance related to unrecognized tax benefits did not explicitly address financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The amended guidance eliminates the existing diversity in practice in the presentation of unrecognized tax benefits in these instances. Under the amended guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction of a deferred tax asset when an operating loss carryforward, a similar tax loss or a tax credit carryforward exists, with limited exceptions. This amended guidance is effective for fiscal years beginning on or after December 15, 2013. The Company does not expect that the adoption of this guidance will have a material impact on its financial position or results of operations.
In April 2014, the FASB issued an amendment to the accounting guidance for reporting discontinued operations. The amended guidance raises the threshold for disposals to qualify as a discontinued operation by requiring a component of an entity that is held for sale, or has been disposed of by sale, to represent a strategic shift that has or will have a major effect on operations and financial results. Under the amended guidance, a strategic shift could include the disposal of a major line of business, a major geographical area, a major equity method investment or other major parts

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of an entity. In addition, the new guidance allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation. The amended guidance is effective for fiscal years beginning on or after December 15, 2014. Early adoption is permitted for disposals, or classifications as held for sale, that have not been previously reported in financial statements. The Company has not applied this amended guidance to the Granville-Phillips discontinued operation.

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## 2. Stock-Based Compensation

The Company may issue stock options and restricted stock which vest upon the satisfaction of a performance condition and/or a service condition. In addition, the Company issues shares to participating employees pursuant to an employee stock purchase plan.
The following table reflects stock-based compensation expense, excluding amounts related to discontinued operations, recorded during the three and six months ended March 31, 2014 and 2013 (in thousands):

| Three months ended <br> March 31, | Six months ended <br> March 31, |  |  |
| :--- | :--- | :--- | :--- |
| 2014 | 2013 | 2014 | 2013 |
| $\$ 3,683$ | $\$ 2,341$ | $\$ 6,293$ | $\$ 4,672$ |
| 112 | 117 | 225 | 244 |
| $\$ 3,795$ | $\$ 2,458$ | $\$ 6,518$ | $\$ 4,916$ |

The fair value per share of restricted stock is equal to the quoted price of the Company's common stock on the date of grant, net of estimated forfeitures. The expense related to these awards is being recorded ratably over the vesting period. In addition, for stock-based awards where vesting is dependent upon achieving certain operating performance goals, the Company estimates the likelihood of achieving the performance goals.
During the six months ended March 31, 2014, the Company granted $1,409,557$ shares of restricted stock to members of senior management of which 601,432 shares vest over the service period. The vesting of the remaining 808,125 shares will vary based on the achievement of certain financial performance goals which will be measured at the end of fiscal year 2014, and a continuing required service period. Total compensation expense on both of these awards is a maximum of $\$ 19.2$ million, net of cancellations. Changes to the projected attainment against performance targets during fiscal 2014 may result in an adjustment to the amount of cumulative compensation recorded as of the date the estimate is revised. Of the $1,409,557$ shares of restricted stock that the Company granted, 8,500 shares were granted to Granville-Phillips employees.
During the six months ended March 31, 2013, the Company granted 1,224,000 shares of restricted stock to members of senior management of which 546,625 shares vest over a required service period. The vesting of the remaining 677,375 shares depended upon the achievement of certain financial performance goals which were measured at the end of fiscal year 2013, and a continuing required service period. Based on the Company's results for fiscal 2013 relative to the financial performance goals established in the grant, 460,615 of the 677,375 shares were earned. These awards will vest over the remaining service period. Total compensation expense on the awards granted during the six months ended March 31, 2013 is a maximum of $\$ 7.3$ million, net of cancellations. However, the final compensation expense related to these awards is dependent on the award holders completing the remaining service period. Of the $1,224,000$ shares of restricted stock that the Company granted, 29,380 shares were granted to Granville-Phillips employees.
Stock Option Activity
The following table summarizes stock option activity for the six months ended March 31, 2014:

|  | Number of <br> Options | Weighted- <br> Average <br> Remaining <br> Contractual Term | Weighted <br> Average <br> Exercise Price | Aggregate <br> Intrinsic Value <br> (In Thousands) |
| :--- | :--- | :--- | :--- | :--- |
| Outstanding at September 30, 2013 | 15,540 | 15,540 | 0.3 years | $\$ 15.86$ |

Based on the Company's closing stock price of $\$ 10.93$ as of March 31 , 2014, there was no intrinsic value to the option holders.
No stock options were granted during the three or six months ended March 31, 2014 or 2013. There were no stock option exercises in the three or six months ended March 31, 2014. The total intrinsic value of options exercised during
the three and six months ended March 31, 2013 was $\$ 19,000$. The total cash received from participants as a result of stock option exercises during the three and six months ended March 31, 2013 was $\$ 67,000$.
As of March 31, 2014, there was no future compensation cost related to stock options as all outstanding stock options have vested.

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## Restricted Stock Activity

The following table summarizes restricted stock activity for the six months ended March 31, 2014:

|  | Weighted <br> Average <br> Grant-Date |  |
| :--- | :--- | :--- |
| Outstanding at September 30, 2013 | Shares |  |
| Fair Value |  |  |

The fair value of restricted stock awards vested during the three months ended March 31, 2014 and 2013 was $\$ 1.8$ million and $\$ 3.1$ million, respectively. The fair value of restricted stock awards vested during the six months ended March 31, 2014 and 2013 was $\$ 4.9$ million and $\$ 6.0$ million, respectively.
As of March 31, 2014, the unrecognized compensation cost related to restricted stock that is expected to vest is $\$ 15.7$ million and will be recognized over an estimated weighted average service period of 1.8 years.
Employee Stock Purchase Plan
A total of 115,132 shares were purchased under the employee stock purchase plan during the three and six months ended March 31, 2014 for aggregate proceeds of $\$ 1.0$ million. A total of 115,751 shares were purchased under the employee stock purchase plan during the three and six months ended March 31, 2013 for aggregate proceeds of $\$ 1.0$ million.
3. Discontinued Operations

The Granville-Phillips business unit develops, manufactures, sells and services vacuum measurement and gas analysis instrumentation to semiconductor and non-semiconductor customers. On March 18, 2014, the Company announced an agreement to sell this business to MKS Instruments, Inc. for $\$ 87.0$ million in cash. The sale is subject to regulatory approval and customary closing conditions. The Company expects to complete the sale in the quarter ending June 30, 2014. The Company determined that its Granville-Phillips business met the criteria to be reported as a discontinued operation. As a result, the Company's historical financial statements have been revised to present the operating results of the Granville-Phillips business as a discontinued operation. Summarized results of the discontinued operation are as follows (in thousands):

|  | Three Months Ended <br>  <br> March 31, |  | Six Months Ended <br> March 31, |  |
| :--- | :--- | :--- | :--- | :--- |
|  | 2014 | 2013 | 2014 | 2013 |
| Revenue | $\$ 7,453$ | $\$ 7,137$ | $\$ 14,968$ | $\$ 13,656$ |
|  |  |  |  |  |
| Income from discontinued operations | $\$ 1,825$ | $\$ 2,198$ | $\$ 4,309$ | $\$ 3,602$ |
| Income tax provision (benefit) | 663 | $(456$ | 1,570 | $(240$ |
| Income from discontinued operations, net of <br> tax | $\$ 1,162$ | $\$ 2,654$ | $\$ 2,739$ | $\$ 3,842$ |

Assets and liabilities identifiable within the Granville-Phillips business are reported as "Assets held for sale" and "Liabilities held for sale," respectively, in the Consolidated Balance Sheets. The major classes of assets and liabilities of the discontinued operation as are follows (in thousands):

## Inventory

Property, plant and equipment
Goodwill

| March 31, | September 30, |
| :--- | :--- |
| 2014 | 2013 |
| $\$ 3,602$ | $\$ 3,308$ |
| 315 | 364 |
| 24,106 | 24,106 |


| Assets held for sale | $\$ 28,023$ | $\$ 27,778$ |
| :--- | :--- | :--- |
| Deferred revenue | $\$ 21$ | $\$ 43$ |
| Accrued warranty and retrofit costs | 86 | 89 |
| Liabilities held for sale | $\$ 107$ | $\$ 132$ |

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Assets and liabilities held for sale are classified as current in the Consolidated Balance Sheets because the Company expects to complete the sale of the Granville-Phillips business in the third quarter of fiscal 2014.

## 4. Acquisitions

## Acquisition of Matrical

On August 1, 2013, the Company acquired certain assets and assumed certain liabilities of Matrical, Inc.'s ("Matrical") life science businesses (collectively "the Acquired assets") for cash consideration of approximately $\$ 9.3$ million, net of cash acquired. The acquisition of the Acquired assets provides the Company with the opportunity to enhance its existing product offerings in biobanking and sample management.
The Company recorded the assets and liabilities associated with the purchase of the Acquired assets at their fair values as of the acquisition date. The amounts recorded were as follows (in thousands):
Accounts receivable \$636
$\begin{array}{ll}\text { Inventory } & \text { 2,095 }\end{array}$
Prepaid and other current assets 103
Property, plant and equipment 534
Completed technology 500
Customer relationships 1,500
Goodwill 7,076
Debt (902
Accounts payable (294
Deferred revenue (351
Customer deposits (1,249
Other current liabilities (322
Total purchase price, net of cash acquired
In performing the purchase price allocation, the Company considered, among other factors, analyses of historical financial performance, its intention for future use of the Acquired assets, and estimates of future cash flows from the Acquired assets. The purchase price was allocated based upon the fair value of the identified assets acquired and liabilities assumed as of the acquisition date from a market participant's perspective.
The Company used the relief-from-royalty method to value the completed technology and the excess earnings method to value the customer relationships. Cash flows were discounted at a rate of $18 \%$. The weighted-average amortization periods are 4.6 years for completed technologies and 7.0 years for customer relationships. The intangible assets acquired will be amortized using the straight-line method because it approximates the pattern in which the economic benefits are expected to be realized.
Goodwill represents the excess of the purchase price over the fair values of the net tangible and intangible assets acquired and is primarily the result of expected synergies from combining the Matrical products with the Company's other life science products. Goodwill arising from the acquisition of the Acquired assets is deductible for tax purposes. The operating results of the Acquired assets have been included in the results of operations for the Brooks Life Science Systems segment from the date of acquisition.
The Company completed the final allocation of the purchase price related to the Acquired assets in the first quarter of fiscal year 2014. Prior to finalizing the purchase price allocation in the first quarter of fiscal 2014, the Company made an adjustment to reduce the fair value of deferred revenue acquired in the acquisition and goodwill by $\$ 61,000$.

Acquisition of Crossing
On October 29, 2012, the Company acquired all the outstanding stock of Crossing Automation Inc. ("Crossing"), a U.S. based provider of automation solutions and services primarily to global semiconductor front-end markets. The Company paid, in cash, an aggregate merger consideration of $\$ 59.0$ million net of cash acquired. The acquisition of Crossing provides the Company with the opportunity to enhance its existing capabilities with respect to manufacturing of atmospheric and vacuum automation solutions within the semiconductor front-end market.

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The Company recorded the assets and liabilities associated with Crossing at their fair values as of the acquisition date. The amounts recorded were as follows (in thousands):
Accounts receivable \$5,356
$\begin{array}{lll}\text { Inventory } & 8,668\end{array}$
$\begin{array}{ll}\text { Prepaid expenses } & 1,968\end{array}$
Property, plant and equipment 2,270
$\begin{array}{ll}\text { Completed technology } & 10,530\end{array}$
Customer relationships 20,010
Goodwill 26,453
Other long term assets 885
Accounts payable (3,024 )
Accrued liabilities (5,172)
Deferred revenue (319 )
Other current liabilities (388 )
Other long-term liabilities
Total purchase price, net of cash acquired
In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, analyses of historical financial performance, and estimates of future cash flows from Crossing's products and services. The purchase price was allocated based upon the fair value of the identified assets acquired and liabilities assumed as of the acquisition date from a market participant's perspective.
The Company used the relief-from-royalty method to value the completed technology and the excess earnings method to value the customer relationships. Cash flows were discounted at a rate of $15 \%$. The weighted-average amortization periods are 7.7 years for completed technologies and 8.0 years for customer relationships. The intangible assets acquired will be amortized using methods that approximate the pattern in which the economic benefits are expected to be realized, including variable declining balance and straight-line methods.
Goodwill is primarily the result of expected synergies from combining the operations of Crossing with the Company. Goodwill arising from the acquisition of Crossing is not deductible for tax purposes.
The operating results of Crossing have been included in the results of operations for the Brooks Product Solutions and Brooks Global Services segments from the date of acquisition.
The Company completed the final allocation of the purchase price related to Crossing in the fourth quarter of fiscal year 2013.
5. Goodwill and Intangible Assets

Goodwill represents the excess of net book value over the estimated fair value of net tangible and identifiable intangible assets of a reporting unit. The Company performs an annual impairment test of its goodwill on September 30 of each fiscal year unless interim indicators of impairment exist. The Company did not identify any indicators of goodwill impairment during the six month period ended March 31, 2014 that would warrant an interim test.
The components of the Company's goodwill, excluding amounts related to the discontinued operations, by business segment at March 31, 2014 are as follows (in thousands):

Gross goodwill at September 30, 2013
Less: aggregate impairment charges recorded
Goodwill, less accumulated impairments at September 30, 2013
Adjustments during the six months ended March 31,
$\left.\begin{array}{lllll}\text { Brooks } & \text { Brooks } & \text { Brooks } & & \\ \text { Product } & \text { Global } & \text { Life Science Other } & \text { Total } \\ \text { Solutions } & \text { Services } & \text { Systems } & & \\ \$ 482,637 & \$ 156,792 & \$ 47,439 & \$ 26,014 & \$ 712,882 \\ (437,706 & (151,238 & - & (26,014 & ) \\ (614,958) \\ 44,931 & 5,554 & 47,439 & - & 97,924 \\ ,- & - & (61 & )- & (61\end{array}\right)$ 2014

Goodwill, less accumulated impairments at March 31, 2014

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Components of the Company's identifiable intangible assets, excluding amounts related to the discontinued operations, are as follows (in thousands):

|  | March 31, 2014 |  |  | September 30, 2013 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Patents | \$7,808 | \$7,248 | \$560 | \$7,808 | \$7,196 | \$612 |
| Completed technology | 53,557 | 39,211 | 14,346 | 57,050 | 40,354 | 16,696 |
| Trademarks and trade names | 3,496 | 3,496 | - | 3,564 | 3,554 | 10 |
| Customer relationships | 67,134 | 26,916 | 40,218 | 66,687 | 23,917 | 42,770 |
|  | \$131,995 | \$76,871 | \$55,124 | \$135,109 | \$75,021 | \$60,088 |

The Company is required to test certain long-lived assets when indicators of impairment are present. The Company determined that impairment indicators were present for the long-lived assets related to its Celigo product line as of September 30, 2013. The long-lived assets in question were tested for recoverability in the fourth quarter of fiscal year 2013 by comparing the sum of the undiscounted cash flows directly attributable to the assets to their carrying values, which resulted in the conclusion that the carrying amounts of the assets were not recoverable. The fair values of the assets were then evaluated to determine the amount of the impairment, if any. The fair value of the assets was based primarily on market-based valuation techniques. As a result of this analysis, management determined that an impairment loss of $\$ 2.0$ million had occurred as of September 30, 2013, and allocated the loss to the long-lived assets in the impaired asset group based on the carrying value of each asset, with no asset reduced below its respective fair value.
The Company revised its estimate of the fair value of these assets at December 31, 2013 and determined that an additional impairment loss of $\$ 0.4$ million, representing the remaining carrying value of the long-lived assets, was required. The impairment charge was recorded as a component of cost of revenue in the Consolidated Statements of Operations during the first quarter of fiscal 2014. The Company completed the sale of the Celigo product line in the second quarter of fiscal 2014. The sale of the Celigo product line did not have a material impact on the Company's financial position or result of operations.

## 6. Income Taxes

The Company recorded an income tax provision of $\$ 1.1$ million and $\$ 1.9$ million for the three and six months ended March 31, 2014, respectively. This tax provision substantially consists of U.S. and foreign income taxes, as well as interest related to unrecognized tax benefits.
The Company recorded an income tax provision (benefit) of $\$ 0.3$ million and $\$(3.6)$ million for the three and six months ended March 31, 2013, respectively. The tax provision for both periods includes $\$ 0.9$ million of tax benefits recognized during the quarter ended March 31, 2013 resulting from the reinstatement of the U.S. federal research and development tax credit. The tax benefit for the six months ended March 31, 2013 is primarily driven by tax benefits generated on U.S. losses partially offset by a tax provision on income in foreign jurisdictions.
The tax provision for the three months ended March 31, 2013 was calculated based on a quarterly loss. This unusual relationship between tax expense and pre-tax income was driven by a change in the estimated annual effective tax rate during the quarter which reduced the estimate of year-to-date tax benefits on the losses incurred during the first six months of the year.
The Company evaluates the realizability of its deferred tax assets by jurisdiction and assesses the need for a valuation allowance on a quarterly basis. As of March 31, 2014, the Company has continued to maintain a valuation allowance in the U.S. against certain tax credits and state net operating losses due to the uncertainty of their realization based on long-term Company forecasts and the expiration dates on these attributes. The Company has also continued to maintain a valuation allowance in certain jurisdictions that have not generated historical cumulative profitability. The Company is subject to U.S. federal income tax and various state, local and foreign income taxes in various jurisdictions. The amount of income taxes paid is subject to the Company's interpretation of applicable tax laws in the jurisdictions in which it files. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company has income tax audits in progress in various jurisdictions in which it

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operates. In the Company's U.S. and foreign jurisdictions, the years that may be examined vary, with the earliest tax year being 2006. Based on the outcome of these examinations, or the expiration of statutes of limitations for specific jurisdictions, the related unrecognized tax benefits could change from those recorded in the Company's Consolidated Balance Sheets. It is reasonably possible that the unrecognized tax benefit will be reduced by an amount in the range between $\$ 1.7$ million and $\$ 2.8$ million during the next twelve months as the result of the expiration of statutes of limitations and the settlement of foreign income tax audits.

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7. Earnings per Share

Below is a reconciliation of weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share (in thousands):

Weighted average common shares outstanding used in computing basic earnings per share
Dilutive common stock options and restricted stock awards

| Three months ended <br> March 31, | Six months ended |  |
| :--- | :--- | :--- | :--- |
| 2014 | 2013 | March 31, |


| Weighted average common shares outstanding for purposes of <br> computing diluted earnings per share | 67,505 | 65,889 | 67,383 | 65,726 |
| :--- | :--- | :--- | :--- | :--- |

Options to purchase approximately 16,000 and 34,000 shares of common stock and 0 and $3,179,000$ shares of restricted stock were excluded from the computation of diluted earnings per share attributable to common stockholders for the three months ended March 31, 2014 and 2013, respectively, as their effect would be anti-dilutive. In addition, options to purchase approximately 16,000 and 65,000 shares of common stock and 0 and $3,008,000$ shares of restricted stock were excluded from the computation of diluted earnings per share attributable to common stockholders for the six months ended March 31, 2014 and 2013, respectively, as their effect would be anti-dilutive. All outstanding stock options and unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the three and six months ended March 31, 2013 as a result of the net loss for those periods. 8. Segment Information

The Company reports financial results in three segments: Brooks Product Solutions, Brooks Global Services and Brooks Life Science Systems. A description of segments is included in the 2013 Annual Report on Form 10-K. The Company evaluates performance and allocates resources based on revenues, operating income (loss) and returns on invested assets. Operating income (loss) for each segment includes selling, general and administrative expenses directly attributable to the segment. Other unallocated corporate expenses, amortization of acquired intangible assets (excluding completed technology) and restructuring and other charges are excluded from the segments' operating income (loss). The Company's indirect overhead costs, which include various general and administrative expenses, are allocated among the segments based upon multiple cost drivers associated with the respective administrative function, including segment revenue, segment headcount, or an analysis of the segments that benefit from a specific administrative function. Segment assets exclude cash, cash equivalents, restricted cash, marketable securities, deferred tax assets, assets held for sale and investments in equity method investments.

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Financial information for the Company's business segments, excluding amounts related to the discontinued operations, is as follows (in thousands):

| Brooks | Brooks | Brooks |  |
| :--- | :--- | :--- | :--- |
| Product | Global | Life Science | Total |
| Solutions | Services | Systems |  |

Three months ended March 31, 2014
Revenue
Product
Services
Gross profit
Segment operating income (loss)
Three months ended March 31, 2013
Revenue
Product
Services
Gross profit
Segment operating income (loss)
Six months ended March 31, 2014
Revenue

| Product | $\$ 171,453$ | $\$ 7,652$ | $\$ 16,559$ | $\$ 195,664$ |
| :--- | :--- | :--- | :--- | :--- |
| Services | - | 39,058 | 8,250 | 47,308 |
|  | $\$ 171,453$ | $\$ 46,710$ | $\$ 24,809$ | $\$ 242,972$ |
| Gross profit | $\$ 60,461$ | $\$ 15,501$ | $\$ 9,227$ | $\$ 85,189$ |
| Segment operating income (loss) | $\$ 10,455$ | $\$ 5,091$ | $\$(7,040$ | $\$ 8,506$ |

Six months ended March 312013
Revenue
Product
Services
Gross profit
Segment operating income (loss)
Assets
March 31, 2014
September 30, 2013
$\left.\begin{array}{llll}\$ 134,990 & \$ 7,236 & \$ 17,454 & \$ 159,680 \\ - & 35,509 & 5,799 & 41,308 \\ \$ 134,990 & \$ 42,745 & \$ 23,253 & \$ 200,988 \\ \$ 39,293 & \$ 11,366 & \$ 8,705 & \$ 59,364 \\ \$(6,447 & \$ 2,287 & \$(3,897 & \$(8,057\end{array}\right)$

| $\$ 231,324$ | $\$ 61,856$ | $\$ 107,933$ | $\$ 401,113$ |
| :--- | :--- | :--- | :--- |
| $\$ 226,759$ | $\$ 59,762$ | $\$ 105,221$ | $\$ 391,742$ |

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A reconciliation of the Company's reportable segment operating income (loss) to the corresponding consolidated amounts for the three and six month periods ended March 31, 2014 and 2013 is as follows (in thousands):

| Three months ended |  |  | Six months ended |  |
| :---: | :---: | :---: | :---: | :---: |
| March 31, |  |  | March 31, |  |
| 2014 | 2013 |  | 2014 | 2013 |
| \$4,810 | \$(612 | ) | \$8,506 | \$(8,057 ) |
| 1,460 | 1,413 |  | 2,916 | 2,856 |
| 772 | 751 |  | 1,519 | 5,441 |
| 182 | 394 |  | 217 | 1,284 |
| \$2,396 | \$(3,170 |  | \$3,854 | \$ $(17,638)$ |

A reconciliation of the Company's reportable segment assets to the corresponding consolidated amounts as of March 31, 2014 and September 30, 2013 is as follows (in thousands):

## Segment assets

Cash, cash equivalents, restricted cash and marketable securities
Deferred tax assets
Assets held for sale
Equity method investments
Other unallocated corporate net assets
Total assets

| March 31, | September 30, |
| :--- | :--- |
| 2014 | 2013 |
| $\$ 401,113$ | $\$ 391,742$ |
| 192,223 | 173,539 |
| 113,504 | 115,985 |
| 28,023 | 27,778 |
| 30,342 | 25,687 |
| 2,016 | 2,032 |
| $\$ 767,221$ | $\$ 736,763$ |

9. Significant Customers

The Company had one customer that accounted for more than $10 \%$ of its revenue, at $10 \%$ and $13 \%$, in each of the three months ended March 31, 2014 and 2013, respectively. The Company had one customer that accounted for more than $10 \%$ of revenue, at $12 \%$ and $11 \%$, in each of the six months ended March 31, 2014 and 2013, respectively. The Company did not have any customers that accounted for more than $10 \%$ of its accounts receivable balance at March 31, 2014 or September 30, 2013.
10. Restructuring and Other Charges

Restructuring charges in the three and six months ended March 31, 2014 consisted primarily of severance and other workforce-related costs and result from the consolidation of certain administrative functions in the Brooks Life Science Systems segment, the on-going transition of manufacturing certain of the Company's Polycold products to a third party contract manufacturer and other programs designed to improve the Company's cost structure. Total severance charges related to the outsourcing of the Polycold manufacturing operation are expected to be $\$ 1.1$ million, including severance and retention fees. This charge is being recorded ratably over the period from notification of the closing to the actual service end date, or September 2014. The Company has expensed $\$ 0.8$ million of the total charge as of March 31, 2014, and will expense the balance ratably through fiscal year 2014.
Restructuring charges in the three and six months ended March 31, 2013 consisted of severance costs for workforce reductions implemented to consolidate the operations of Crossing and the Company, to transition the Polycold product line to a third party contract manufacturer and other programs designed to improve the Company's cost structure. Restructuring charges also included costs to consolidate two of the Company's facilities in California. In addition, the Company incurred other charges of $\$ 0.1$ million related to a partial settlement of a defined benefit pension plan that covers substantially all of the Company's Swiss employees.

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The activity for the three and six months ended March 31, 2014 and 2013 related to the Company's restructuring-related accruals, excluding amounts related to the discontinued operations, is summarized below (in thousands):

|  | Activity - Three Months Ended March 31, 2014 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Balance at |  |  | Balance at |
|  | $\begin{aligned} & \text { December 31, } \\ & 2013 \end{aligned}$ | Expense | Utilization | $\begin{aligned} & \text { March 31, } \\ & 2014 \end{aligned}$ |
| Facilities and other | \$57 | \$7 | \$(64 ) | ) \$- |
| Workforce-related | 1,405 | 765 | (618 ) | ) 1,552 |
|  | \$1,462 | \$772 | \$(682 ) | ) \$1,552 |


|  | Activity - Three Months Ended March 31, 2013 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Balance at |  |  | Balance at |
|  | December 31, | Expense | Utilization | $\begin{aligned} & \text { March 31, } \\ & 2013 \end{aligned}$ |
| Facilities and other | \$265 | \$112 | \$(144 | ) \$233 |
| Workforce-related | 4,438 | 639 | (2,746 | ) 2,331 |
|  | \$4,703 | \$751 | \$ $(2,890$ | ) $\$ 2,564$ |


|  | Activity - Six Months Ended March 31, 2014 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Balance at September 30, $2013$ | Expense | Utilization | Balance at March 31, 2014 |
| Facilities and other | \$155 | \$13 | \$(168 | ) \$- |
| Workforce-related | 1,257 | 1,506 | (1,211 | ) 1,552 |
|  | \$1,412 | \$1,519 | \$(1,379 | ) $\$ 1,552$ |
|  | Activity - Six Months Ended March 31, 2013 |  |  |  |
|  | Balance at |  |  | Balance at |
|  | $\begin{aligned} & \text { September 30, } \\ & 2012 \end{aligned}$ | Expense | Utilization | $\begin{aligned} & \text { March 31, } \\ & 2013 \end{aligned}$ |
| Facilities and other | \$- | \$690 | \$(457 | ) \$233 |
| Workforce-related | 2,021 | 4,664 | (4,354 | ) 2,331 |
|  | \$2,021 | \$5,354 | \$(4,811 | ) \$2,564 |

The Company anticipates that the accrued restructuring costs at March 31, 2014 will be paid in the next twelve months.
11. Employee Benefit Plans

The Company has two active defined benefit pension plans (collectively, the "Plans"). The Plans cover substantially all of the Company's employees in Switzerland and Taiwan. Retirement benefits are generally earned based on years of service and compensation during active employment; however, the level of benefits varies within the Plans. Eligibility is determined in accordance with local statutory requirements.
In connection with actions taken under the Company's restructuring programs in the first quarter of fiscal 2013, the number of employees accumulating benefits under the Switzerland Plan declined significantly. As a result, a partial settlement event occurred and resulted in accelerated amortization of approximately $\$ 0.1$ million of prior pension losses. The settlement loss, recorded in the quarter ended December 31, 2012, is included in restructuring and other charges in the Consolidated Statements of Operations.

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The components of the Company's net pension cost for the three and six months ended March 31, 2014 and 2013 is as follows (in thousands):

|  | Three months ended <br> March 31, | Six months ended <br> March 31, |  |  |
| :--- | :--- | :--- | :--- | :--- |
|  | 2014 | 2013 | 2014 | 2013 |
| Service cost | $\$ 102$ | $\$ 144$ | $\$ 202$ | $\$ 322$ |
| Interest cost | 39 | 35 | 78 | 80 |
| Amortization of losses | - | 1 | 1 | 3 |
| Expected return on assets | $(55$ | $)(58$ | $(108$ | $)$ |
| Net periodic pension cost | 86 | 122 | 173 | 270 |
| Settlement loss | - | - | - | 87 |
| Total pension cost | $\$ 86$ | $\$ 122$ | $\$ 173$ | $\$ 357$ |
| 12. Capital Lease Obligation |  |  |  |  |

In March 2014, the Company exercised an option to renew the lease of a building and the related land on the Chelmsford, Massachusetts campus. The Company has leased this building since 2002. By exercising this option, the Company has also contracted to purchase the building at the end of the lease period. The assets acquired under the lease were recorded at the net present value of the minimum lease payments which was then allocated to the building and the land based on their relative fair values. The cost of the building and the land under the capital lease are included in the Consolidated Balance Sheets as property, plant and equipment at $\$ 6.4$ million and $\$ 2.1$ million, respectively. Depreciation expense related to the building is computed using the straight-line method over the estimated useful life of the asset.
The obligation related to the capital lease is recorded as short-term or long-term obligation in the Consolidated Balance Sheets depending on when payments are due. The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments, as of March 31, 2014, are as follows (in thousands): Year ended September 30,
2014 \$441
2015 881
2016 881
2017 881
2018 6,901
Total minimum lease payments $\quad 9,985$
Less amounts representing interest $\quad 1,448$
$\begin{array}{ll}\text { Total capital lease obligation } & 8,537\end{array}$
Less current portion of capital lease obligation 881
Long-term capital lease obligation \$7,656
13. Other Balance Sheet Information

The following is a summary of accounts receivable at March 31, 2014 and September 30, 2013 (in thousands):

| Accounts receivable | $\$ 84,770$ | $\$ 78,460$ |
| :--- | :--- | :--- |
| Less allowance for doubtful accounts | $(1,184$ | $)(863$ |
| Less allowance for sales returns | $(146$ | $)(114)$ |
|  | $\$ 83,440$ | $\$ 77,483$ |

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The following is a summary of inventories at March 31, 2014 and September 30, 2013, excluding amounts related to the discontinued operations (in thousands):

|  | March 31, <br> 2014 | September 30, <br> 2013 |
| :--- | :--- | :--- |
| Inventories |  |  |
| Raw materials and purchased parts | $\$ 59,844$ | $\$ 57,678$ |
| Work-in-process | 17,083 | 19,991 |
| Finished goods | 16,823 | 16,742 |
|  | $\$ 93,750$ | $\$ 94,411$ |

Reserves for excess and obsolete inventory were $\$ 24.1$ million, excluding amounts related to the discontinued operations, at March 31, 2014 and September 30, 2013.
The Company provides for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized and retrofit accruals at the time retrofit programs are established. The Company's warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company.
Product warranty and retrofit activity on a gross basis for the three and six months ended March 31, 2014 and 2013, excluding amounts related to the discontinued operations, is as follows (in thousands):
Activity - Three Months Ended March 31, 2014


Activity - Three Months Ended March 31, 2013

Balance at December 31, 2012
\$7,637
Adjustments for Accruals
Acquisitions and Divestitures
$\$ — \quad \$ 2,985$

Activity - Six Months Ended March 31, 2014
Balance at
September 30, 2013
\$7,260
Adjustments for Adjustments for Accruals
Acquisitions and Divestitures
\$ -
$\$ 4,150$
Costs Incurred
\$ $(2,987$ Balance at March 31, 2013
) $\$ 7,635$

Activity - Six Months Ended March 31, 2013

| Balance at <br> September 30, | Adjustments for <br> Acquisitions and Divestitures | Accruals | Costs Incurred |
| :--- | :--- | :--- | :--- | | Balance at |
| :--- |
| March 31, |

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## 14. Equity Method Investments

The Company accounts for its equity method investments using the equity method. Under this method of accounting, the Company records in income its proportionate share of the earnings (losses) of the investee with a corresponding increase (decrease) in the carrying value of the investment.
BioCision, LLC
In March 2014, the Company acquired a $22 \%$ equity interest in BioCision, LLC ("BioCision"), a privately-held company based in Larkspur, California, for $\$ 4.0$ million. BioCision develops, manufactures and markets cell cryopreservation products used to improve biomaterial sample handling and standardization.
ULVAC Cryogenics, Inc.
The Company participates in a $50 \%$ joint venture, ULVAC Cryogenics, Inc. ("UCI"), with ULVAC Corporation of Chigasaki, Japan. UCI manufactures and sells cryogenic vacuum pumps, principally to ULVAC Corporation. For the three months ended March 31, 2014 and 2013, the Company recorded income (expense) associated with UCI of $\$ 0.5$ million and $\$(16,000)$, respectively. For the six months ended March 31, 2014 and 2013, the Company recorded income associated with UCI of $\$ 1.2$ million and $\$ 62,000$, respectively. At March 31, 2014, the carrying value of UCI in the Company's Consolidated Balance Sheet was $\$ 23.4$ million. For each of the three months ended March 31, 2014 and 2013, management fee payments received by the Company from UCI were $\$ 0.1$ million. For the six months ended March 31, 2014 and 2013, management fee payments received by the Company from UCI were $\$ 0.3$ million and $\$ 0.2$ million, respectively. For the three months ended March 31, 2014 and 2013, the Company incurred charges from UCI for products or services of $\$ 37,000$ and $\$ 0.1$ million, respectively. For the six months ended March 31, 2014 and 2013, the Company incurred charges from UCI for products or services of $\$ 0.1$ million and $\$ 0.4$ million, respectively. At March 31, 2014 and September 30, 2013, the Company owed UCI $\$ 27,000$ and $\$ 26,000$, respectively, in connection with accounts payable for unpaid products and services.
Yaskawa Brooks Automation, Inc.
The Company participates in a 50\% joint venture with Yaskawa Electric Corporation ("Yaskawa") called Yaskawa Brooks Automation, Inc. ("YBA") to exclusively market and sell Yaskawa's semiconductor robotics products and Brooks' automation hardware products to semiconductor customers in Japan. For the three months ended March 31, 2014 and 2013, the Company recorded income associated with YBA of $\$ 35,000$ and $\$ 6,000$, respectively. For the six months ended March 31, 2014 and 2013, the Company recorded income (expense) associated with YBA of $\$ 17,000$ and $\$(78,000)$, respectively. At March 31, 2014, the carrying value of YBA in the Company's Consolidated Balance Sheet was $\$ 2.9$ million. For the three months ended March 31, 2014 and 2013, revenue earned by the Company from YBA was $\$ 2.1$ million and $\$ 1.3$ million, respectively. For the six months ended March 31, 2014 and 2013, revenue earned by the Company from YBA was $\$ 2.8$ million and $\$ 2.9$ million, respectively. For each of the three months ended March 31, 2014 and 2013, the Company incurred charges from YBA for products or services of $\$ 0.2$ million. For each of the six months ended March 31, 2014 and 2013, the Company incurred charges from YBA for products or services of $\$ 0.3$ million.
The amount due from YBA included in accounts receivable at March 31, 2014 and September 30, 2013 was $\$ 2.1$ million and $\$ 2.3$ million, respectively. At March 31, 2014 and September 30, 2013 the Company owed YBA $\$ 0$ and $\$ 47,000$ in connection with accounts payable for unpaid products and services.

## 15. Derivative Instruments

All derivatives, whether designated in a hedging relationship or not, are recorded on the Consolidated Balance Sheets at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based on the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.
A cash flow hedge is a derivative instrument designated for the purpose of hedging the exposure to variability in future cash flows resulting from a particular risk. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income and

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are recognized in the results of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in the results of operations.
In June 2013, the Company entered into foreign exchange contracts to reduce its exposure to changes in foreign exchange rates associated with an order for multiple automated sample management systems. The Company concluded that these foreign currency contracts meet the criteria to qualify as a cash flow hedge. Accordingly, the Company is reflecting changes in the fair value of the effective portion of these foreign currency contracts in accumulated other comprehensive income. Amounts recorded in accumulated other comprehensive income will be reclassified to revenue in the Consolidated

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Statements of Operations when the forecasted transaction occurs.
The Company had the following notional amounts outstanding under foreign currency contracts that qualify for cash flow hedge accounting at March 31, 2014 (in thousands):


The Company expects to classify the accumulated gain on these contracts into revenue in the third quarter of fiscal 2014. The Company did not recognize any amounts related to ineffectiveness in the results of operations for the six months ended March 31, 2014.
In addition, the Company has various transactions and balances denominated in currencies other than the U.S. dollar. Most of these transactions or balances are denominated in Euros, British Pounds and a variety of Asian currencies. These transactions and balances, including short-term advances between the Company and its subsidiaries, subject the Company's operations to exposure from exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. The Company mitigates the impact of potential currency translation gains and losses on short-term intercompany advances through timely settlement of each transaction, generally within 30 days.
The Company also enters into foreign exchange contracts to reduce its exposure to currency translation. Under forward contract arrangements, the Company typically agrees to purchase a fixed amount of U.S. Dollars in exchange for a fixed amount of a foreign currency on specified dates with maturities of three months or less. These transactions do not qualify for hedge accounting. For derivative instruments not designated as hedging instruments, changes in fair value are recognized in the Consolidated Statements of Operations as gains and losses consistent with the classification of the underlying risk.
Net gains and losses recorded as a component of Other Income (Expense), net in the Consolidated Statements of Operations related to these contracts for the three and six month periods ended March 31, 2014 and 2013 is as follows (in thousands):

| Three Months Ended <br> March 31, | Six Months Ended <br> March 31, |  |  |
| :--- | :--- | :--- | :--- |
| 2014 | 2013 | 2014 | 2013 |
| $\$(0.2$ | $\$ 0.1$ | $\$(0.1$ | $\$ 0.1$ |

$\begin{array}{lll}\text { Realized gains (losses) on derivative instruments not } \\ \$(0.2 & \text { ) }\end{array} \mathbf{\$ 0 . 1} \$(0.1 \quad \$ 0.1$ designated as hedging instruments
The Company had the following notional amounts outstanding under foreign currency contracts that do not qualify for hedge accounting at March 31, 2014 and September 30, 2013 (in thousands):
March 31, 2014 :

| Buy Currency | Notional Amount <br> of Buy Currency | Sell Currency | Maturity | Notional Amount <br> of Sell Currency <br> in U.S. Dollars | Fair Value of Fair Value of <br> Assets | Liabilities |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| U.S. Dollar | $\$ 2,976$ | Japanese Yen | April to June | $\$ 2,973$ | $\$ 3$ | $\$-$ |
| British Pound | 2,470 | Euro | April 2014 | 2,488 | - | $(18$ |
| U.S. Dollar | 698 | Taiwan Dollar | April 2014 | 697 | 1 | - |
| Korean Won | 605 | U.S. Dollar | April 2014 | 602 | 3 | - |
| U.S. Dollar | 428 | Israeli Shekel | April 2014 | 431 | - | $(3$ |
|  | $\$ 7,177$ |  |  | $\$ 7,191$ | $\$ 7$ | $\$(21$ |

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September 30, 2013:

| Buy Currency | Notional Amount of Buy Currency in U.S. Dollars | Sell Currency | Maturity | Notional Amount of Sell Currency in U.S. Dollars | Fair Value of Assets | Fair Value of Liabilities |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| U.S. Dollar | \$ 2,770 | Japanese Yen | October 2013 to <br> December 2013 | \$2,762 | \$8 | \$- |
| Korean Won | 686 | U.S. Dollar | October 2013 | 688 | - | 2 |
| U.S. Dollar | 301 | Israeli Shekel | October 2013 | 304 | - | 3 |
| U.S. Dollar | 231 | Singapore Dollar | October 2013 | 231 | - | - |
|  | \$ 3,988 |  |  | \$3,985 | \$8 | \$5 |

The fair values of the forward contracts described above are recorded in the Company's Consolidated Balance Sheets as Prepaid Expenses and Other Current Assets and Accrued Expenses and Other Current Liabilities.
16. Marketable Securities

The Company invests its cash in marketable securities and classifies them as available-for-sale. The Company records these securities at fair value. Marketable securities reported as current assets represent investments that mature within one year from the balance sheet date. Long-term marketable securities represent investments with maturity dates greater than one year from the balance sheet date. At the time that the maturity dates of these investments become one year or less, the securities are reclassified to current assets. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders' equity until they are sold or mature. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results.

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The following is a summary of marketable securities (included in short and long-term marketable securities in the Consolidated Balance Sheets), including accrued interest receivable, as of March 31, 2014 and September 30, 2013 (in thousands):

|  | Gross | Gross |  |
| :--- | :--- | :--- | :--- |
| Amortized | Unrealized | Unrealized | Fair Value |
| Cost | Gains | Losses |  |

March 31, 2014:
U.S. Treasury securities and obligations of U.S. government agencies
Corporate securities
Mortgage-backed securities
Other debt securities
Municipal securities
Bank certificate of deposits

| $\$ 15,876$ | $\$ 3$ | $\$(35$ | $)$ |
| :--- | :--- | :--- | :--- |
| 53,419 | 36 | $(30$ | $) 53,844$ |
| 1,035 | 31 | - | 1,066 |
| 899 | - | - | 899 |
| 23,882 | 11 | $(9$ | $) 23,884$ |
| 11,823 | 1 | - | 11,824 |
| $\$ 106,934$ | $\$ 82$ | $\$(74$ | $) \$ 106,942$ |

September 30, 2013:
U.S. Treasury securities and obligations of U.S. government agencies
Corporate securities $\quad 35,045$
Mortgage-backed securities
Other debt securities
Municipal securities
Bank certificate of deposits
1,093

| 88 | - | - | 88 |
| :--- | :--- | :--- | :--- |
| 25,199 | 15 | $(7$ | $)$ |

Bank certificate of deposits
9,451 -

The fair value of the marketable securities at March 31, 2014 by contractual maturity, are shown below (in thousands). Expected maturities could differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

| Due in one year or less | Fair Value |
| :--- | :--- |
| Due after one year through five years | $\$ 50,274$ |
| Due after ten years | 53,291 |
|  | 3,377 |
| 17. Fair | $\$ 106,942$ |

17. Fair Value Measurements

The fair value measurement guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:
Level 1: Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Assets and liabilities of the Company measured at fair value on a recurring basis as of March 31, 2014 and September 30, 2013 are summarized as follows (in thousands):

| Description | $\begin{aligned} & \text { March 31, } \\ & 2014 \end{aligned}$ | Fair Value Measurements at Reporting Date Using |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | Quo <br> Acti <br> Iden <br> (Lev | Significan <br> Observabl <br> (Level 2) | Sign <br> Unob <br> (Lev |
| Assets |  |  |  |  |
| Cash equivalents | \$6,532 | \$16 | \$ 6,516 | \$- |
| Available-for-sale securities | 106,942 | - | 106,942 | - |
| Foreign exchange contracts | 98 | - | 98 | - |
| Total Assets | \$113,572 | \$16 | \$ 113,556 | \$- |
| Liabilities |  |  |  |  |
| Foreign exchange contracts | \$21 | \$- | \$ 21 | \$- |

Description

Assets
Cash equivalents
Available-for-sale securities
Foreign exchange contracts
Total Assets
Liabilities
Foreign exchange contracts
Cash Equivalents

Cash equivalents of $\$ 16,000$ and $\$ 6.2$ million at March 31, 2014 and September 30, 2013, respectively, consisting of Money Market Funds, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. Cash equivalents of $\$ 6.5$ million and $\$ 1.6$ million at March 31, 2014 and September 30, 2013, respectively, consisting of Bank Certificate of Deposits, U.S. Government Agency Securities and Municipal Securities, are classified within Level 2 of the hierarchy because they are not actively traded.
Available-For-Sale Securities
Available-for-sale securities of $\$ 2.2$ million at September 30, 2013, consisting primarily of highly rated Corporate Bonds, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets of identical assets or liabilities. Available-for-sale securities of $\$ 106.9$ million and $\$ 88.2$ million at March 31, 2014 and September 30, 2013, respectively, consisting of Municipal Securities, Bank Certificate of Deposits, Commercial Paper, U.S. Treasury Securities and Obligations of U.S. Government Agency Securities, and Mortgage-Backed Securities are classified within Level 2 of the fair value hierarchy because they are not actively traded and are valued using matrix pricing and benchmarking. Matrix pricing is a mathematical technique used to value securities by relying on the securities' relationship to other benchmark quoted prices.
Foreign Exchange Contracts
Foreign exchange contract assets and liabilities are classified within Level 2 of the fair value hierarchy because there may not be an active market for each contract. However, the inputs used to calculate the value of the contract were obtained from an active market.
18. Commitments and Contingencies

Letters of Credit

At March 31, 2014, the Company had approximately $\$ 20.5$ million of letters of credit outstanding that it issued.

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Contingencies
The Company is subject to various legal proceedings, both asserted and unasserted, that arise in the ordinary course of business. The Company cannot predict the ultimate outcome of such legal proceedings or in certain instances provide reasonable ranges of potential losses. However, as of the date of this report, the Company believes that none of these claims will have a material adverse effect on its consolidated financial condition or results of operations. In the event of unexpected subsequent developments and given the inherent unpredictability of these legal proceedings, there can be no assurance that the Company's assessment of any claim will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's consolidated financial condition or results of operations in particular quarterly or annual periods.
19. Subsequent Event

On April 30, 2014, the Company acquired all of the outstanding stock of DMS Dynamic Micro Systems Semiconductor Equipment GmbH ("DMS"), a German based provider of logistic solutions for semiconductor fabrication plants. The Company agreed to a purchase price of $\$ 31.0$ million, subject to a working capital adjustment expected to be concluded within 90 days of closing. The aggregate merger consideration includes approximately $\$ 16.0$ million related to the repayment of DMS's debt obligations. The acquisition of DMS provides the Company with the opportunity to enhance its existing capabilities with respect to automation solutions in the semiconductor front-end market.
On May 7, 2014, the Company's Board of Directors declared a cash dividend of $\$ 0.08$ per share payable on June 27, 2014 to common stockholders of record on June 6, 2014. Dividends are declared at the discretion of the Company's Board of Directors and depend on actual cash from operations, the Company's financial condition and capital requirements and any other factors the Company's Board of Directors may consider relevant. Future dividend declarations, as well as the record and payment dates for such dividends, will be determined by the Company's Board of Directors on a quarterly basis.
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements
This Quarterly Report on Form 10-Q contains statements that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as "expect," "estimate," "plan," "intend," "believe," "anticipate," "may," "will," "should," "could," "continue," "project" or similar statements or variations of such term involve risks, uncertainties and other factors which may cause the actual results, our performance or our achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include the Risk Factors which are set forth in our 2013 Annual Report on Form $10-\mathrm{K}$ and which are incorporated herein by reference. Precautionary statements made in our 2013 Annual Report on Form 10-K should be read as being applicable to all related forward-looking statements whenever they appear in this report.
Overview
We are a leading provider of automation and vacuum solutions for multiple markets and are a valued business partner to original equipment manufacturers ("OEMs") and equipment users throughout the world. We serve markets where equipment productivity and availability is a critical factor for our customers' success, typically in demanding temperature and/or pressure environments. Our largest served market is the semiconductor capital equipment industry. Our Brooks Product Solutions shipments to these customers represented approximately $56 \%$ of our consolidated revenue for the first half of fiscal year 2014. The demand for semiconductors and semiconductor manufacturing equipment is cyclical, resulting in periodic expansions and contractions of this market. The non-semiconductor markets we serve include life sciences, industrial capital equipment and other adjacent technology markets. We continue to make investments to maintain and grow both our semiconductor product and service offerings and our life science offerings. In October 2012, we acquired Crossing Automation, Inc. ("Crossing"), a U.S. based provider of

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automation solutions for semiconductor front-end markets for approximately $\$ 59.0$ million and in April 2014 we acquired DMS Dynamic Micro Systems Semiconductor Equipment GmbH, a German based provider of logistic solutions for semiconductor fabrication plants for approximately $\$ 31.0$ million, plus a working capital adjustment expected to be paid within 90 days of closing. In August 2013, we acquired certain assets and liabilities from Matrical, Inc. ("Matrical") for $\$ 9.3$ million. The assets acquired from Matrical expanded our biobanking and sample management product offerings.
On March 18, 2014, we announced an agreement to sell the Granville-Phillips Gas Analysis \& Vacuum Measurement ("Granville-Phillips") business unit to MKS Instruments, Inc. for $\$ 87.0$ million in cash. The sale is subject to regulatory

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approval and customary closing conditions but we expect to complete the sale in our third fiscal quarter. We currently expect to record a pre-tax gain ranging between $\$ 56.0$ and $\$ 58.0$ million and an after-tax gain ranging between $\$ 26.0$ and $\$ 28.0$ million, subject to finalization of the working capital adjustment. The tax charge of approximately $\$ 30.0$ million on the gain is substantially non-cash as it will be offset by our net operating losses in the U.S. The Granville-Phillips business develops, manufactures, sells and services vacuum measurement and gas analysis instruments to semiconductor and non-semiconductor customers. We determined that the Granville-Phillips business met the criteria to be reported as a discontinued operation. As a result, our historical financial statements have been revised to present the operating results of the Granville-Phillips business as a discontinued operation.
We report financial results in the following three segments:
The Brooks Product Solutions segment provides a variety of products critical to technology equipment productivity and availability. Those products include atmospheric and vacuum tool automation systems, atmospheric and vacuum robots and robotic modules and cryogenic vacuum pumping, thermal management and vacuum measurement solutions which are used to create, measure and control critical process vacuum applications.
The Brooks Global Services segment provides an extensive range of support services including on-and off-site repair services, on-and off-site diagnostic support services, and installation services that enable our customers to maximize process tool uptime and productivity. This segment also provides end-user customers with spare parts support services to maximize customer tool productivity.
The Brooks Life Science Systems segment provides automated sample management systems for automated cold sample storage, equipment for sample preparation and handling, consumables, and parts and support services to a wide range of life science customers including pharmaceutical companies, biotechnology companies, biobanks, national laboratories, research institutes and research universities.

Three and Six Months Ended March 31, 2014, Compared to Three and Six Months Ended March 31, 2013
Revenue
We reported revenue of $\$ 125.9$ million for the three months ended March 31, 2014, compared to $\$ 109.5$ million in the same prior year period, an increase of $15 \%$. Our Brooks Product Solutions segment increased $\$ 11.3$ million, mostly due to increased demand from the semiconductor capital equipment market and the industrial markets we serve. Our Brooks Life Science Systems segment increased $\$ 3.5$ million, mostly due to sales of automated sample management stores and services. The acquisition of the Matrical products contributed $\$ 2.1$ million to our revenue for the three months ended March 31, 2014. Our Brooks Global Services segment increased $\$ 1.6$ million.
We reported revenue of $\$ 243.0$ million for the six months ended March 31, 2014, compared to $\$ 201.0$ million in the same prior year period, an increase of $21 \%$. Our Brooks Product Solutions segment increased $\$ 36.5$ million predominantly from higher sales to the semiconductor capital equipment market. Our Brooks Global Services segment increased $\$ 4.0$ million. Our Brooks Life Science Systems segment had higher sales of $\$ 1.5$ million. The acquisition of the Matrical products added $\$ 3.4$ million to our revenue for the six months ended March 31, 2014.
Revenue from the Granville-Phillips business has been excluded from the revenue from continuing operations described above. These amounts, the majority of which would be reported in the Brooks Product Solutions segment and the remainder in the Brooks Global Services segment, have been excluded from the revenue amounts reported above because we determined that the Granville-Phillips business met the criteria to be reported as a discontinued operation. Revenue from the Granville-Phillips business was $\$ 7.5$ million and $\$ 7.1$ million for the three months ended March 31, 2014 and 2013, respectively, and $\$ 15.0$ million and $\$ 13.7$ million for the six months ended March 31, 2014 and 2013, respectively.
Our Brooks Product Solutions segment reported revenue of $\$ 89.9$ million for the three months ended March 31, 2014, an increase of $14 \%$ from $\$ 78.6$ million in the same prior year period. This segment reported revenue of $\$ 171.5$ million for the six months ended March 31, 2014, an increase of $27 \%$ from $\$ 135.0$ million in the same prior year period. This represents an increase in revenue of $\$ 11.3$ million and $\$ 36.5$ million for the three and six months ended March 31, 2014, respectively, as compared to the same prior year periods. The increase was mostly driven by demand from the

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semiconductor capital equipment market, and the segment also benefited from stronger demand from our industrial market customers.
Our Brooks Global Services segment reported revenue of $\$ 23.4$ million for the three months ended March 31, 2014, a $7 \%$ increase from $\$ 21.8$ million in the same prior year period primarily due to an increase in demand from semiconductor end-users. This segment reported revenue of $\$ 46.7$ million for the six months ended March 31, 2014, an increase of $9 \%$ from $\$ 42.7$ million in the same prior year period. The increase was mostly driven by demand from the semiconductor capital equipment market.

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Our Brooks Life Science Systems segment reported revenue of $\$ 12.6$ million for the three months ended March 31, 2014 , including $\$ 2.1$ million from the Matrical products, resulting in a $38 \%$ increase from $\$ 9.1$ million in the same prior year period. The increase was driven by sales of automated sample management stores and services, including $\$ 1.5$ million from the acquisition of the Matrical products. This segment reported revenue of $\$ 24.8$ million for the six months ended March 31, 2014, including $\$ 3.4$ million from Matrical products, an increase of $6 \%$ from $\$ 23.3$ million in the same prior year period. The increase was driven by sales of Matrical products, partially offset by lower sales of sample management systems and software.
Gross Margin
Our gross margin percentage increased to $35.2 \%$ for the three months ended March 31, 2014, compared to $30.2 \%$ for the same prior year period. Our gross margin percentage increased to $35.1 \%$ for the six months ended March 31, 2014 compared to $29.5 \%$ for the same prior year period. These increases are attributable lower costs for material and warranty. In addition, gross margin benefited from higher revenue which led to increased production and higher absorption of our fixed costs. Gross margin in the three and six months ended March 31, 2013 included $\$ 0.8$ million and $\$ 2.9$ million, respectively, of charges related to the sale of inventories obtained in acquisitions to which a step-up in value was applied in our purchase accounting.
Gross profit from the Granville-Phillips business has been excluded from the gross profit from continuing operations described above. These margins, the majority of which would be reported in the Brooks Product Solutions segment and the remainder in the Brooks Global Services segment, have been excluded from the gross margin reported above because we determined that the Granville-Phillips business met the criteria to be reported as a discontinued operation. Gross margin from the Granville-Phillips business was $47.0 \%$ and $49.4 \%$ for the three months ended March 31, 2014 and 2013, respectively, and $48.5 \%$ and $46.9 \%$ for the six months ended March 31, 2014 and 2013, respectively. Our gross margin percentage for our Brooks Product Solutions segment increased to $35.6 \%$ for the three months ended March 31, 2014 as compared to $30.9 \%$ in the same prior year period. Gross margin percentage for our Brooks Product Solutions segment increased to $35.3 \%$ for the six months ended March 31, 2014 as compared to $29.1 \%$ in the same prior year period. These increases are attributable to our gross margin initiatives, which resulted in a reduction in material and warranty costs. The segment also benefited from higher revenue which led to increased production and higher absorption of our fixed costs. In addition, gross margin in the three and six months ended March 31, 2013 included $\$ 0.3$ million and $\$ 1.4$ million, respectively, of charges related to the acquisition of Crossing for the sale of inventories to which a step-up in value was applied in our purchase accounting.
Our gross margin percentage for our Brooks Global Services segment increased to $32.8 \%$ for the three months ended March 31, 2014 as compared to $29.2 \%$ in the same prior year period. Gross margin percentage for our Brooks Global Services segment increased to $33.2 \%$ for the six months ended March 31, 2014 as compared to $26.6 \%$ in the same prior year period. Gross margin in the three and six months ended March 31, 2013 included $\$ 0.3$ million and $\$ 1.3$ million, respectively, of charges related to the acquisition of Crossing, related primarily to the sale of inventories to which a step-up in value was applied in our purchase accounting. In addition, the increase in revenue and higher utilization of the field service organization also contributed to the increase in gross margin.
Our gross margin percentage for our Brooks Life Science Systems segment increased to $37.0 \%$ for the three months ended March 31, 2014 as compared to $26.5 \%$ in the same prior year period. This increase is attributable to higher revenue which led to increased production and higher absorption of our fixed costs. Gross margin percentage for our Brooks Life Science Systems segment decreased to $37.2 \%$ for the six months ended March 31, 2014 as compared to $37.4 \%$ in the same prior year period. This decrease was due to a more favorable product mix for the six months ended March 31, 2013, which included a firmware upgrade project. In addition, in the current year, we recognized $\$ 0.4$ million of impairment charges related to the Celigo product line that we divested in our second fiscal quarter. Also, we recorded $\$ 0.4$ million and $\$ 0.2$ million of inventory step-up adjustments for the six months ended March 31, 2014 and 2013, respectively, related to our life science acquisitions.
Research and Development
Research and development, or R\&D, expenses for the three months ended March 31, 2014 were $\$ 12.5$ million, an increase of $\$ 1.2$ million, compared to $\$ 11.3$ million in the same prior year period. R\&D expenses for the six months

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ended March 31, 2014 were $\$ 25.0$ million, an increase of $\$ 2.8$ million, compared to $\$ 22.2$ million in the same prior year period. We are developing enhancements to our current product offerings and investing in our strategy to grow longer-term revenue. R\&D expenses for the three and six months ended March 31, 2014 also include $\$ 0.4$ million and $\$ 0.7$ million, respectively, of Matrical costs which were not included in the same prior year period.
Selling, General and Administrative
Selling, general and administrative, or SG\&A expenses were $\$ 28.6$ million for the three months ended March 31, 2014, an increase of $\$ 4.4$ million compared to $\$ 24.2$ million in the same prior year period. This increase is primarily due to

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$\$ 1.6$ million of higher labor costs which consist primarily of an increase in incentive based compensation due to our improved execution against financial performance objectives and $\$ 0.9$ million of increased stock-based compensation. Higher SG\&A costs also include $\$ 1.0$ million of SG\&A expenses for Matrical, which were not included in the same prior year period. These increases in SG\&A costs were partially offset by lower discretionary spending.
SG\&A expenses were $\$ 54.8$ million for the six months ended March 31, 2014, an increase of $\$ 5.5$ million compared to $\$ 49.3$ million in the same prior year period. This increase is primarily due to $\$ 2.3$ million of higher labor costs which consist primarily of an increase in incentive based compensation due to our improved execution against financial performance objectives and $\$ 1.2$ million of increased stock-based compensation. Higher SG\&A costs also include $\$ 1.7$ million of SG\&A expenses for Matrical, which were not included in the same prior year period. These increases in SG\&A costs were partially offset by lower discretionary spending.
Restructuring and Other Charges
We recorded a restructuring charge of $\$ 0.8$ million and $\$ 1.5$ million for the three and six months ended March 31 , 2014. Restructuring charges in the three and six months ended March 31, 2014 consisted primarily of severance and other workforce-related costs and result from the consolidation of certain administrative functions in the Brooks Life Science Systems segment, the on-going transition of manufacturing certain Polycold products to a third party contract manufacturer and other programs designed to improve our cost structure.

Total severance charges related to the outsourcing of the Polycold manufacturing operation are expected to be $\$ 1.1$ million, including severance and retention fees. This charge is being recorded ratably over the period from notification of the closing to the actual service end date, or September 2014. We expensed $\$ 0.8$ million of the total charge as of March 31, 2014, and will expense the balance ratably through fiscal year 2014.
Unpaid severance charges of $\$ 1.6$ million as of March 31, 2014 are expected to be paid in the next twelve months. We recorded a restructuring charge of $\$ 0.8$ million and $\$ 5.4$ million for the three and six months ended March 31, 2013. Restructuring charges in the three and six months ended March 31, 2013 consisted of severance costs for workforce reductions implemented to consolidate the operations of Crossing and the Company, to transition the Polycold product line to a third party contract manufacturer and other programs designed to improve our cost structure. Restructuring charges also included costs to consolidate two of our facilities in California. In addition, we incurred other charges of $\$ 0.1$ million related to a partial settlement of a defined benefit pension plan that covers substantially all of our Swiss employees.
Interest Income
Interest income was $\$ 0.3$ million and $\$ 0.5$ million for the three and six month periods ended March 31, 2014 and 2013.

Other Income (Expense), Net
Other income, net was $\$ 56,000$ and $\$ 77,000$ for the three months ended March 31, 2014 and 2013, respectively. Other income (expense), net was $\$ 315,000$ and $(\$ 16,000)$ for the six months ended March 31, 2014 and 2013, respectively. Income Tax Provision (Benefit)
We recorded an income tax provision of $\$ 1.1$ million and $\$ 1.9$ million for the three and six months ended March 31, 2014, respectively. The tax provision for both periods substantially consists of U.S. and foreign income taxes, as well as interest related to unrecognized tax benefits.
We recorded an income tax provision (benefit) of $\$ 0.3$ million and ( $\$ 3.6$ ) million for the three and six months ended March 31, 2013, respectively. The tax provision for both periods includes $\$ 0.9$ million of tax benefits recognized during the quarter ended March 31, 2013 resulting from the reinstatement of the U.S. federal research and development tax credit. The tax benefit for the six months ended March 31, 2013 is primarily driven by tax benefits generated on U.S. losses partially offset by a tax provision on income in our foreign jurisdictions.
The tax provision for the three months ended March 31, 2013 was calculated based on a quarterly loss. This unusual relationship between tax expense and pre-tax income was driven by a change in the estimated annual effective tax rate during the quarter which reduced the estimate of year-to-date tax benefits on the losses incurred during the first six months of the year.
Equity in Earnings (Losses) of Equity Method Investments

Income (expense) associated with our $50 \%$ interest in ULVAC Cryogenics, Inc., or "UCI", a joint venture with ULVAC Corporation of Japan, was $\$ 475,000$ and $(\$ 16,000)$ for the three months ended March 31, 2014 and 2013, respectively. This increase was the result of higher revenue due to a strengthening in demand for UCI products. The income associated with our 50\% interest in Yaskawa Brooks Automation, Inc., a joint venture with Yaskawa Electric Corporation of Japan was $\$ 35,000$ and $\$ 6,000$ for the three months ended March 31, 2014 and 2013, respectively.

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Income associated with our $50 \%$ interest in UCI was $\$ 1.2$ million and $\$ 62,000$ for the six months ended March 31, 2014 and 2013, respectively. This increase was the result of higher revenue due to a strengthening in demand for UCI products. The income (loss) associated with our $50 \%$ interest in Yaskawa Brooks Automation, Inc. was $\$ 17,000$ and $(\$ 78,000)$ for the six months ended March 31, 2014 and 2013, respectively.
Income from Discontinued Operations, Net of Tax
We determined that our Granville-Phillips business unit met the criteria to be reported as a discontinued operation and our historical financial statements have been revised to present the operating results of Granville-Phillips as a discontinued operation.
Reported revenue for the three months ended March 31, 2014 and 2013 have been reduced by $\$ 7.5$ million and $\$ 7.1$ million, respectively. The pre-tax income from the discontinued operation was $\$ 1.8$ million and $\$ 2.2$ million for the three months ended March 31, 2014 and 2013, respectively. The after-tax income from the discontinued operation was $\$ 1.2$ million and $\$ 2.7$ million for the three months ended March 31, 2014 and 2013, respectively.
Reported revenue for the six months ended March 31, 2014 and 2013 have been reduced by $\$ 15.0$ million and $\$ 13.7$ million, respectively. The pre-tax income from the discontinued operation was $\$ 4.3$ million and $\$ 3.6$ million for the six months ended March 31, 2014 and 2013, respectively. The after-tax income from the discontinued operation was $\$ 2.7$ million and $\$ 3.8$ million for the six months ended March 31, 2014 and 2013, respectively. Liquidity and Capital Resources
A considerable portion of our revenue is dependent on the demand for semiconductor capital equipment. Demand for this equipment has historically experienced periodic downturns. However, we believe that we have adequate resources to fund our currently planned working capital and capital expenditure requirements for the next twelve months. The cyclical nature of our served markets and uncertainty with the current global economic environment makes it difficult for us to predict longer-term liquidity requirements with certainty. We may be unable to obtain any required additional financing on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to successfully develop or enhance products, respond to competitive pressure or take advantage of acquisition opportunities, any of which could have a material adverse effect on our business.
At March 31, 2014, we had cash, cash equivalents and marketable securities aggregating $\$ 192.2$ million. This amount was composed of $\$ 85.3$ million of cash and cash equivalents, $\$ 50.3$ million of investments in short-term marketable securities and $\$ 56.6$ million of investments in long-term marketable securities. We have obligations under a capital lease of $\$ 8.5$ million at March 31, 2014.
Cash and cash equivalents were $\$ 85.3$ million at March 31, 2014, an increase of $\$ 2.3$ million from September 30, 2013. The increase in cash was primarily due to $\$ 35.7$ million of cash flow from operations. This source of cash was partially offset by $\$ 17.0$ million of net purchases of marketable securities, $\$ 10.8$ million of cash dividends paid to our shareholders, $\$ 4.0$ million paid to acquire $22 \%$ of BioCision, LLC and $\$ 2.7$ million of capital expenditures. Cash provided by operating activities was $\$ 35.7$ million for the six months ended March 31, 2014, and was composed of $\$ 6.8$ million of net income, $\$ 19.7$ million for non-cash related charges and $\$ 9.1$ million of net working capital decreases. Non-cash related charges consisted of items such as $\$ 11.2$ million of depreciation and amortization, $\$ 6.5$ million of stock-based compensation and a deferred tax provision of $\$ 2.3$ million, partially offset by $\$ 1.3$ million of undistributed losses of our equity method investments. The decrease in working capital is primarily due to a $\$ 13.4$ million increase in deferred revenue, $\$ 2.7$ million of an increase in accrued compensation and benefits, which was partially offset by a $\$ 6.1$ million increase in accounts receivable. The increase in deferred revenue relates primarily to advance payments for life sciences automated sample storage systems.
Cash used in investing activities was $\$ 23.5$ million for the first half of fiscal 2014, and includes net purchases of marketable securities of $\$ 17.0$ million, $\$ 4.0$ million we paid to acquire an investment in BioCision, and $\$ 2.7$ million of capital expenditures.
Cash used in financing activities for the six months ended March 31, 2014 is composed primarily of $\$ 10.8$ million for the quarterly cash dividends we paid on December 27, 2013 and March 28, 2014.
We had approximately $\$ 20.5$ million of letters of credit outstanding at March 31, 2014. We issue these letters of credit to satisfy performance guarantee requirements under certain customer contracts. While we do not anticipate that these

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obligations will be called, they could be called by the beneficiaries at any time before the expiration date should the Company fail to meet certain contractual requirements.
On June 25, 2013, we filed a registration statement on Form S-3 with the SEC to sell up to $\$ 200$ million of securities, before any fees or expenses of the offering. Securities that may be sold include common stock, preferred stock, warrants, debt securities, depository shares, purchase contracts and purchase units. Any such offering, if it does occur, may happen in one or

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more transactions. The specific terms of any securities to be sold will be described in supplemental filings with the SEC. This registration statement will expire on July 1, 2016.
On May 7, 2014, our Board of Directors approved a cash dividend of $\$ 0.08$ per share of our common stock. The total dividend of approximately $\$ 5.3$ million will be paid on June 27, 2014 to shareholders of record at the close of business on June 6, 2014. Dividends are declared at the discretion of our Board of Directors and depend on actual cash from operations, our financial condition and capital requirements and any other factors our Board of Directors may consider relevant. We intend to pay quarterly cash dividends in the future; however, the amount and timing of these dividends may be impacted by the cyclical nature of certain markets that we serve. We may reduce, delay or cancel a quarterly cash dividend based on the severity of a cyclical downturn.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk
We are exposed to a variety of market risks, including changes in interest rates affecting the return on our cash and cash equivalents, short-term and long-term investments and fluctuations in foreign currency exchange rates.
Interest Rate Exposure
Our cash and cash equivalents consist principally of money market securities, which are short-term in nature. Our short-term and long-term investments consist mostly of highly rated corporate debt securities, U.S. Treasury securities, and obligations of U.S. Government Agencies and other municipalities. At March 31, 2014, the unrealized gain position on marketable securities was $\$ 8,000$, which is included in Accumulated Other Comprehensive Income in the Consolidated Balance Sheets. A hypothetical 100 basis point change in interest rates would result in an annual change of approximately $\$ 1.7$ million in interest income earned.
Currency Rate Exposure
We have transactions and balances denominated in currencies other than the U.S. dollar. Most of these transactions or balances are denominated in Euros, British Pounds and a variety of Asian currencies. Sales in currencies other than the U.S. dollar were approximately $28 \%$ of our total sales for the first half of fiscal year 2014. In the normal course of our business, we have short-term advances between our legal entities that are subject to foreign currency exposure. Outstanding short-term advances were approximately $\$ 24.2$ million at March 31, 2014. We mitigate the impact of potential currency translation losses on these short-term intercompany advances by the timely settlement of each transaction, generally within 30 days. We also utilize forward contracts to hedge our exposures. We incurred a foreign currency loss of $\$ 0.5$ million for the six months ended March 31, 2014, which relates to the currency fluctuation on these advances between the time the transaction occurs and the ultimate settlement of the transaction. A hypothetical $10 \%$ change in foreign exchange rates at March 31, 2014 would result in a $\$ 0.9$ million change in our net income. Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, and pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, the Company's management, including our chief executive officer and chief financial officer has concluded that our disclosure controls and procedures are effective.
Change in Internal Controls. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.
PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

We are subject to various legal proceedings, both asserted and unasserted, that arise in the ordinary course of business. We cannot predict the ultimate outcome of such legal proceedings or in certain instances provide reasonable ranges of potential losses. However, as of the date of this report, we believe that none of these claims will have a material adverse effect on our consolidated financial condition or results of operations. In the event of unexpected subsequent developments and given the inherent unpredictability of these legal proceedings, there can be no assurance that our assessment of any claim will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on our consolidated financial condition or results of operations in particular quarterly or annual periods.
Item 1A. Risk Factors
You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Item 1A. Risk Factors in the 2013 Annual Report on Form 10-K. There have been no material changes from the factors disclosed in our 2013 Annual Report on Form $10-\mathrm{K}$, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
As part of our equity compensation program, we offer recipients of restricted stock awards the opportunity to elect to sell their shares at the time of vesting to satisfy tax obligations in connection with such vesting. The following table provides information concerning shares of our Common Stock, $\$ 0.01$ par value, purchased in connection with the forfeiture of shares to satisfy the employees' obligations with respect to withholding taxes in connection with the vesting of shares of restricted stock during the three months ended March 31, 2014. Upon purchase, these shares are immediately retired.

|  | Total <br> Number <br> of Shares | Average Price Paid <br> per Share | Total Number of <br> Shares Purchased as <br> Part of Publicly |
| :--- | :--- | :--- | :--- |
| Period | 2,210 | $\$ 10.01$ | Announced Plans <br> or Programs |
| January $1-31,2014$ | 32,674 | 2,210 |  |
| February $1-28,2014$ | 1,661 | 9.90 | 32,674 |
| March $1-31,2014$ | 36,545 | $\$ 9.93$ | 1,661 |
| Total |  |  | 36,545 |

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Item 6. Exhibits
The following exhibits are included herein:

Exhibit
No.
Description

Amendment to Lease between the Company and BerCar II, LLC for 12 Elizabeth Drive, Chelmsford, Massachusetts dated September 30, 2013.

Certification of the Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of the Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of the Registrant's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following material from the Company's Quarterly Report on Form 10-Q, for the quarter ended March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## BROOKS AUTOMATION, INC.

DATE: May 8, 2014

DATE: May 8, 2014
/S/ Lindon G. Robertson
Lindon G. Robertson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
/S/ David Pietrantoni
David Pietrantoni
Vice President-Finance and Corporate Controller
(Principal Accounting Officer)

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