

BRUKER CORP  
Form 10-Q  
November 07, 2014  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

**For the quarterly period ended September 30, 2014**

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

**For the transition period from                      to**

**Commission File Number 000-30833**

**BRUKER CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

**04-3110160**

Edgar Filing: BRUKER CORP - Form 10-Q

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**40 Manning Road, Billerica, MA 01821**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(978) 663-3660**

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 ☒ 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 ☒ 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):

Large accelerated filer ☒  
Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Accelerated filer ☐  
Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 par value per share

Outstanding at November 3, 2014
168,483,639 shares

Table of Contents

**BRUKER CORPORATION**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended September 30, 2014**

**Index**

	<b>Page</b>
<b>Part I</b>	
<b>FINANCIAL INFORMATION</b>	
<u>Item 1:</u>	1
<u>Unaudited Condensed Consolidated Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	1
<u>Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three and nine months ended September 30, 2014 and 2013</u>	2
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	3
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	4
<u>Item 2:</u>	19
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3:</u>	36
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4:</u>	37
<u>Controls and Procedures</u>	37
<b>Part II</b>	37
<b>OTHER INFORMATION</b>	37
<u>Item 1:</u>	37
<u>Legal Proceedings</u>	37
<u>Item 1A:</u>	37
<u>Risk Factors</u>	37
<u>Item 2:</u>	38
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 3:</u>	38
<u>Defaults Upon Senior Securities</u>	38
<u>Item 4:</u>	38
<u>Mine Safety Disclosure</u>	38
<u>Item 5:</u>	38
<u>Other Information</u>	38
<u>Item 6:</u>	38
<u>Exhibits</u>	38
<u>Signatures</u>	40

---

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share and per share data)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 329.2	\$ 438.7
Short-term investments	113.1	
Accounts receivable, net	268.9	307.6
Inventories	566.8	589.8
Other current assets	121.7	95.8
Total current assets	1,399.7	1,431.9
Property, plant and equipment, net	265.0	299.5
Intangibles, net and other long-term assets	245.9	256.9
Total assets	\$ 1,910.6	\$ 1,988.3
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 0.7	\$ 0.7
Accounts payable	98.5	74.8
Customer advances	210.0	258.6
Other current liabilities	300.8	314.5
Total current liabilities	610.0	648.6
Long-term debt	354.5	354.3
Other long-term liabilities	133.0	135.2
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$0.01 par value 5,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value 260,000,000 shares authorized, 168,538,443 and 167,619,039 shares issued and 168,483,039 and 167,579,204 shares outstanding at September 30, 2014 and December 31, 2013, respectively	1.7	1.7
Treasury stock, at cost, 55,404 and 39,835 shares at September 30, 2014 and December 31, 2013, respectively	(0.9)	(0.6)
Accumulated other comprehensive income	98.7	182.4
Other shareholders' equity	708.0	662.6
Total shareholders' equity attributable to Bruker Corporation	807.5	846.1

# Edgar Filing: BRUKER CORP - Form 10-Q

Noncontrolling interest in consolidated subsidiaries	5.6	4.1
Total shareholders' equity	813.1	850.2
Total liabilities and shareholders' equity	\$ 1,910.6	\$ 1,988.3

*The accompanying notes are an integral part of these statements.*

Table of Contents**BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)**

(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Product revenue	\$ 362.2	\$ 385.0	\$ 1,127.2	\$ 1,119.9
Service revenue	56.0	53.1	170.7	159.3
Other revenue	1.6	0.9	3.0	8.1
Total revenue	419.8	439.0	1,300.9	1,287.3
Cost of product revenue	214.6	208.6	638.9	610.9
Cost of service revenue	37.9	37.2	114.5	107.1
Total cost of revenue	252.5	245.8	753.4	718.0
Gross profit	167.3	193.2	547.5	569.3
Operating expenses:				
Selling, general and administrative	108.0	105.7	332.5	319.6
Research and development	42.1	45.5	132.6	141.4
Other charges	12.3	10.5	21.5	21.1
Total operating expenses	162.4	161.7	486.6	482.1
Operating income	4.9	31.5	60.9	87.2
Interest and other income (expense), net	4.1	(4.7)	(3.1)	(16.4)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	9.0	26.8	57.8	70.8
Income tax provision	2.7	9.9	24.7	24.9
Consolidated net income	6.3	16.9	33.1	45.9
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.8	0.3	2.5	1.0
Net income attributable to Bruker Corporation	\$ 5.5	\$ 16.6	\$ 30.6	\$ 44.9
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	\$ 0.03	\$ 0.10	\$ 0.18	\$ 0.27
Weighted average common shares outstanding:				
Basic	168.0	167.0	167.5	166.6
Diluted	169.6	168.7	169.5	168.4
Comprehensive income (loss)	\$ (76.7)	\$ 53.5	\$ (50.3)	\$ 58.9
Less: Comprehensive income (loss) attributable to noncontrolling interests	0.8	0.3	2.5	1.0
Comprehensive income (loss) attributable to Bruker Corporation	\$ (77.5)	\$ 53.2	\$ (52.8)	\$ 57.9

*The accompanying notes are an integral part of these statements.*



Table of Contents**BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Consolidated net income	\$ 33.1	\$ 45.9
Adjustments to reconcile consolidated net income to cash flows from operating activities:		
Depreciation and amortization	47.6	45.4
Write-down of demonstration inventories to net realizable value	22.6	24.0
Stock-based compensation expense	7.1	4.8
Deferred income taxes		(8.1)
Gain on disposal of product line	(9.0)	(0.9)
Other non-cash expenses, net	11.1	1.2
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	21.5	(9.7)
Inventories	(46.9)	(34.9)
Accounts payable and accrued expenses	24.7	5.7
Income taxes payable, net	(14.8)	(27.6)
Deferred revenue	2.2	1.3
Customer advances	(35.1)	(18.9)
Other changes in operating assets and liabilities, net	(19.1)	(14.6)
Net cash provided by operating activities	45.0	13.6
Cash flows from investing activities:		
Purchase of short-term investments	(120.8)	
Cash paid for acquisitions, net of cash acquired	(3.9)	(11.6)
Proceeds from disposal of product line	12.8	0.5
Purchases of property, plant and equipment	(26.7)	(41.3)
Proceeds from sales of property, plant and equipment	2.9	0.8
Net cash used in investing activities	(135.7)	(51.6)
Cash flows from financing activities:		
Proceeds from revolving lines of credit		19.5
Repayment of other debt, net	(0.7)	(0.8)
Proceeds from issuance of common stock, net	7.3	8.0
Changes in restricted cash	0.7	(1.3)
Cash payments to noncontrolling interest	(1.1)	(0.6)
Net cash provided by financing activities	6.2	24.8
Effect of exchange rate changes on cash and cash equivalents	(25.0)	9.4
Net change in cash and cash equivalents	(109.5)	(3.8)
Cash and cash equivalents at beginning of period	438.7	310.6
Cash and cash equivalents at end of period	\$ 329.2	\$ 306.8

*The accompanying notes are an integral part of these statements.*





Table of Contents

**BRUKER CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

Bruker Corporation, together with its consolidated subsidiaries ( "Bruker" or the "Company" ), is a designer, manufacturer and distributor of proprietary life science and materials research systems and associated products that address the rapidly evolving needs of a diverse array of customers in life science, pharmaceutical, biotechnology, clinical and molecular diagnostics research, and materials and chemical analysis in various industries and government applications.

The Company has two reporting segments, *Bruker Scientific Instruments (BSI)*, which represents approximately 92% of the Company's revenues during the nine months ended September 30, 2014, and *Bruker Energy & Supercon Technologies (BEST)*, which represents the remainder of the Company's revenues. Within BSI, the Company is organized into three operating segments: the Bruker BioSpin Group, the Bruker CALID Group and the Bruker MAT Group. For financial reporting purposes, the Bruker BioSpin, Bruker CALID and Bruker MAT operating segments are aggregated into the BSI reporting segment because each has similar economic characteristics, production processes, service offerings, types and classes of customers, methods of distribution and regulatory environments.

*Bruker BioSpin*- Bruker BioSpin designs, manufactures and distributes enabling life science tools based on magnetic resonance and preclinical imaging technologies. Bruker BioSpin's Magnetic Resonance division sells various systems utilizing magnetic resonance technology, including magnetic resonance imaging (MRI) systems, nuclear magnetic resonance systems (NMR), and electron paramagnetic resonance systems (EPR), as well as OEM MRI magnets sold to medical device manufacturers. Bruker BioSpin's Preclinical Imaging division sells single and multiple modality systems using MRI, position emission tomography (PET), single photon emission tomography (SPECT), computed tomography (CT), magnetic particle imaging (MPI) and optical imaging (fluorescence and bioluminescence) technologies to preclinical markets.

*Bruker CALID (Chemicals, Applied Markets, Life Science, In-Vitro Diagnostics, Detection)*- Bruker CALID designs, manufactures and distributes life science mass spectrometry instruments that can be integrated and used along with other sample preparation or chromatography instruments, as well as Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) detection products. Bruker CALID also designs, manufactures and distributes instruments based on Raman molecular spectroscopy technologies. Bruker CALID's mass spectrometry units are typically used in applications of expression proteomics, clinical proteomics, metabolic and peptide biomarker profiling, drug discovery and development, molecular diagnostics research, molecular and systems biology, basic molecular medicine research and clinical microbiology (for research use only outside the European Union).

*Bruker MAT (Materials)*- Bruker MAT designs, manufactures and distributes spectroscopy and microscopy instruments for the understanding of composition and structure in material science and life science samples. The instruments are based on advanced technologies in X-ray fluorescence spectroscopy (XRF), X-ray diffraction (XRD), X-ray micro computed tomography ( $\mu$ CT), atomic force microscopy (AFM), stylus and optical metrology (SOM) and fluorescence microscopy (FM), and also include analytical tools for electron microscopes, handheld, portable, and mobile X-ray fluorescence, and spark optical emission spectroscopy systems.

## Edgar Filing: BRUKER CORP - Form 10-Q

The Company's BEST reporting segment develops and manufactures superconducting and non-superconducting materials and devices for use in renewable energy, energy infrastructure, healthcare and big science research. The segment focuses on metallic low temperature superconductors for use in magnetic resonance imaging, nuclear magnetic resonance, fusion energy research and other applications, and ceramic high temperature superconductors primarily for energy grid and magnet applications.

The unaudited condensed consolidated financial statements represent the consolidated accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013, have been prepared in accordance with accounting principles generally accepted in the United

# Edgar Filing: BRUKER CORP - Form 10-Q

## Table of Contents

States ( GAAP ) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial information presented herein does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of the results expected for any other interim period or the full year. Certain prior year amounts have been reclassified to conform to the current year presentation and had no effect on previously reported net income or cash flows.

At September 30, 2014, the Company's significant accounting policies and estimates, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, have not changed.

## 2. Stock-Based Compensation

The Company's awards of stock-based compensation are in the form of stock options and restricted stock. The Company recorded stock-based compensation expense as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options	\$ 1.7	\$ 1.3	\$ 4.7	\$ 3.9
Restricted stock	0.4	0.3	2.4	0.9
Total stock-based compensation	\$ 2.1	\$ 1.6	\$ 7.1	\$ 4.8

Stock-based compensation expense is amortized on a straight-line basis over the underlying vesting terms of the stock-based award. Stock options to purchase the Company's common stock are periodically awarded to executive officers and other employees of the Company subject to a vesting period of three to five years. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions regarding volatility, expected life, dividend yield and risk-free interest rates are required for the Black-Scholes model and are presented in the table below:

	2014	2013
Risk-free interest rates	1.81%-2.10%	1.07%-2.45%
Expected life	6.0-6.25 years	6.5 years
Volatility	53.24%-56.24%	54.9%
Expected dividend yield	0.0%	0.0%

### *Brucker Corporation Stock Plan*

In May 2010, the Brucker Corporation 2010 Incentive Compensation Plan (the 2010 Plan ) was approved by the Company's stockholders. The 2010 Plan provides for the issuance of up to 8,000,000 shares of the Company's common stock. The 2010 Plan allows a committee of the Board of Directors (the Committee ) to grant incentive stock options, non-qualified stock options and restricted stock awards. The Committee has the authority to determine which employees will receive the awards, the amount of the awards and other terms and conditions of any awards.

## Edgar Filing: BRUKER CORP - Form 10-Q

Awards granted by the Committee typically vest over a period of three to five years.

Stock option activity for the nine months ended September 30, 2014 was as follows:

# Edgar Filing: BRUKER CORP - Form 10-Q

## Table of Contents

	Shares Subject to Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value (in millions) (b)
Outstanding at December 31, 2013	4,877,564	\$ 13.12		
Granted	990,670	20.70		
Exercised	(807,275)	9.47		
Forfeited	(181,220)	19.29		
Outstanding at September 30, 2014	4,879,739	\$ 15.20	6.7	\$ 19.5
Exercisable at September 30, 2014	2,496,016	\$ 12.23	4.9	\$ 16.0
Exercisable and expected to vest at September 30, 2014 (a)	4,758,169	\$ 15.12	6.6	\$ 19.3

(a) In addition to the options that are vested at September 30, 2014, the Company expects a portion of the unvested options to vest in the future. Options expected to vest in the future are determined by applying an estimated forfeiture rate to the options that are unvested as of September 30, 2014.

(b) The aggregate intrinsic value is based on the positive difference between the fair value of the Company's common stock price of \$18.52 on September 30, 2014, or the date of exercises, as appropriate, and the exercise price of the underlying stock options.

Restricted stock activity for the nine months ended September 30, 2014 was as follows:

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	357,948	\$ 16.65
Granted	112,129	20.68
Vested	(160,352)	18.41
Outstanding at September 30, 2014	309,725	\$ 17.20

At September 30, 2014, the Company expects to recognize pre-tax stock-based compensation expense of \$20.8 million associated with outstanding stock option awards granted under the Company's stock plans over the weighted average remaining service period of 2.5 years. In addition, the Company expects to recognize additional pre-tax stock-based compensation expense of \$5.0 million associated with outstanding restricted stock awards granted under the Company's stock plans over the weighted average remaining service period of 3.2 years.

### 3. Earnings Per Share

Net income per common share attributable to Bruker Corporation shareholders is calculated by dividing net income attributable to Bruker Corporation by the weighted-average shares outstanding during the period. The diluted net income per share computation includes the effect of shares which would be issuable upon the exercise of outstanding stock options and the vesting of restricted stock, reduced by the number of shares which are assumed to be purchased by the Company under the treasury stock method.

## Edgar Filing: BRUKER CORP - Form 10-Q

The following table sets forth the computation of basic and diluted average shares outstanding (in millions, except per share amounts):

Table of Contents

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2014	2013	2014	2013
Net income attributable to Bruker Corporation, as reported	\$ 5.5	\$ 16.6	\$ 30.6	\$ 44.9
Weighted average shares outstanding:				
Weighted average shares outstanding-basic	168.0	167.0	167.5	166.6
Effect of dilutive securities:				
Stock options and restricted stock	1.6	1.7	2.0	1.8
	169.6	168.7	169.5	168.4
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	\$ 0.03	\$ 0.10	\$ 0.18	\$ 0.27

Stock options to purchase approximately 0.2 million shares and 0.7 million shares were excluded from the computation of diluted earnings per share in the three months ended September 30, 2014 and 2013, respectively, as their effect would have been anti-dilutive. Approximately 0.2 million shares and 0.9 million shares were excluded from the computation of diluted earnings per share in the nine months ended September 30, 2014 and 2013, respectively.

#### 4. Fair Value of Financial Instruments

The Company applies the following hierarchy to determine the fair value of financial instruments, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The levels in the hierarchy are defined as follows:

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The valuation techniques that may be used by the Company to determine the fair value of Level 2 and Level 3 financial instruments are the market approach, the income approach and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value based on current market expectations about those future amounts, including present value techniques, option-pricing models and the excess earnings method. The cost approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).



## Edgar Filing: BRUKER CORP - Form 10-Q

The following tables set forth the Company's financial instruments that are measured at fair value on a recurring basis and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at September 30, 2014 and December 31, 2013 (in millions):

Table of Contents

<b>September 30, 2014</b>	<b>Total</b>	<b>Quoted Prices in Active Markets Available (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Cash equivalents	\$ 114.8	\$ 114.8	\$	\$
Short-term investments	113.1	113.1		
Restricted cash	1.8	1.8		
Embedded derivatives in purchase and delivery contracts	0.3		0.3	
Long-term restricted cash	3.8	3.8		
Total assets recorded at fair value	\$ 233.8	\$ 233.5	\$ 0.3	\$
<b>Liabilities:</b>				
Contingent consideration	\$ 15.8	\$	\$	\$ 15.8
Foreign exchange contracts	7.2		7.2	
Embedded derivatives in purchase and delivery contracts	0.3		0.3	
Fixed price commodity contracts	0.1		0.1	
Total liabilities recorded at fair value	\$ 23.4	\$	\$ 7.6	\$ 15.8
<b>December 31, 2013</b>				
<b>Assets:</b>	<b>Total</b>	<b>Quoted Prices in Active Markets Available (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash equivalents	\$ 6.8	\$ 6.8	\$	\$
Restricted cash	2.7	2.7		
Foreign exchange contracts	2.3		2.3	
Embedded derivatives in purchase and delivery contracts	0.2		0.2	
Fixed price commodity contracts	0.1		0.1	
Long-term restricted cash	4.0	4.0		
Total assets recorded at fair value	\$ 16.1	\$ 13.5	\$ 2.6	\$
<b>Liabilities:</b>				
Contingent consideration	\$ 7.0	\$	\$	\$ 7.0
Embedded derivatives in purchase and delivery contracts	0.4		0.4	
Total liabilities recorded at fair value	\$ 7.4	\$	\$ 0.4	\$ 7.0

The Company's financial instruments consist primarily of cash equivalents, short-term investments, restricted cash, derivative instruments consisting of forward foreign exchange contracts, commodity contracts, derivatives embedded in certain purchase and sale contracts, accounts receivable, short-term borrowings, accounts payable, contingent consideration and long-term debt. The carrying amounts of the Company's cash equivalents and restricted cash, accounts receivable, short-term borrowings and accounts payable approximate fair value due to their short-term nature. Derivative assets and liabilities are measured at fair value on a recurring basis. The Company's long-term debt consists principally of a private placement arrangement entered into in 2012 with various fixed interest rates based on the maturity date. The fair value of the long-term

Table of Contents

fixed interest rate debt, which has been classified as Level 2, was \$249.3 million and \$244.1 million at September 30, 2014 and December 31, 2013, respectively, based on market and observable sources with similar maturity dates.

Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to remeasure any of its existing financial assets or liabilities, and did not elect the fair value option for any financial assets or liabilities, which originated during the three or nine months ended September 30, 2014.

As part of certain acquisitions, including one during the three months ended September 30, 2014, the Company recorded contingent consideration liabilities that have been classified as Level 3 in the fair value hierarchy. The contingent consideration represents the estimated fair value of future payments to the former shareholders of applicable acquired companies based on achieving annual revenue targets and specific milestones in certain years as specified in the purchase and sale agreements. The Company initially valued the contingent consideration using the discounted cash flow method. Total contingent consideration liabilities were \$15.8 million as of September 30, 2014 and \$7.0 million as of December 31, 2013. There were no changes to the fair value of the contingent consideration recognized in earnings for the three months ended September 30, 2014, and \$0.1 million was recorded to Other Charges in the condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2014. The following table sets forth the changes in contingent consideration liabilities for the nine months ended September 30, 2014 (in millions):

Balance at December 31, 2013	\$	7.0
Current period additions		9.2
Current period adjustments		0.1
Current period settlements		(0.5)
Balance at September 30, 2014	\$	15.8

During the second quarter of 2014, the Company commenced a program to enter into time deposits with varying maturity dates ranging from one to six months, as well as call deposits for which the Company has the ability to redeem the invested amounts over a period of 31 to 95 days. The Company has classified these investments within cash and cash equivalents or short-term investments within the condensed consolidated balance sheet based on the call and maturity dates.

Short-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains (losses) excluded from earnings and reported, net of tax, in accumulated other comprehensive income within the accompanying condensed consolidated balance sheet. There were no unrealized gains (losses) recorded during the three and nine months ended September 30, 2014. On a quarterly basis, the Company reviews its short-term investments to determine if there have been any events that could create an impairment. None were noted for the three and nine months ended September 30, 2014.

## 5. Inventories

Inventories consisted of the following (in millions):

# Edgar Filing: BRUKER CORP - Form 10-Q

	September 30, 2014	December 31, 2013
Raw materials	\$ 172.5	\$ 189.7
Work-in-process	199.2	196.5
Finished goods	149.2	155.3
Demonstration units	45.9	48.3
Inventories	\$ 566.8	\$ 589.8

Finished goods include in-transit systems that have been shipped to the Company's customers, but not yet installed and accepted by the customer. As of September 30, 2014 and December 31, 2013, inventory-in-transit was \$78.8 million and \$81.9 million, respectively.

The Company reduces the carrying value of its demonstration inventories for differences between its cost and estimated net realizable value through a charge to cost of product revenue that is based on a number of factors, including the age of the unit, the physical condition of the unit and an assessment of technological obsolescence. Amounts recorded in cost of product revenue related to the write-down of demonstration units to net realizable value were \$7.4 million and \$8.0 million for the three

Table of Contents

months ended September 30, 2014 and 2013, respectively, and \$22.6 million and \$24.0 million for the nine months ended September 30, 2014 and 2013, respectively.

## 6. Goodwill and Other Intangible Assets

The following table sets forth the changes in the carrying amount of goodwill for the nine months ended September 30, 2014 (in millions):

Balance at December 31, 2013	\$	127.4
Current period additions		11.0
Current period adjustments		(0.1)
Foreign currency effect		(3.2)
Balance at September 30, 2014	\$	135.1

In July 2014, the Company's Board of Directors approved a plan (the "Plan") to divest certain assets and implement a restructuring program in the CAM division within the Bruker CALID Group. The Plan was developed as a result of management's conclusion that the CAM business would be unable to achieve acceptable financial performance in the next two years. Please see Note 13 - Other Charges, net, for more details on the Plan. The Company determined the Plan was an indicator requiring the evaluation of the definite-lived intangible assets within that reporting unit for recoverability. The Company had no remaining goodwill or indefinite-lived intangible assets attributable to the CAM division prior to approval of the Plan. The Company performed a valuation during the three months ended September 30, 2014 and determined that the definite-lived intangible assets within the CAM division were impaired. The Company recorded an impairment charge of \$1.4 million in the three and nine months ended September 30, 2014 to write-off the remaining carrying value of those assets. This impairment charge is included as a component of Other Charges, net in the condensed consolidated statement of income and comprehensive income.

The following is a summary of intangible assets (in millions):

	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology and related patents	\$ 151.2	\$ (76.7)	\$ 74.5	\$ 157.9	\$ (68.2)	\$ 89.7
Customer relationships	13.7	(5.3)	8.4	18.0	(7.8)	10.2
Trade names	0.1	(0.1)		0.2	(0.2)	
Intangible assets subject to amortization	165.0	(82.1)	82.9	176.1	(76.2)	99.9
In-process research and development	5.7		5.7	5.7		5.7
Intangible assets	\$ 170.7	\$ (82.1)	\$ 88.6	\$ 181.8	\$ (76.2)	\$ 105.6

For each of the three months ended September 30, 2014 and 2013, the Company recorded amortization expense of \$5.1 million related to intangible assets subject to amortization. For the nine months ended September 30, 2014 and 2013, the Company recorded amortization expense of \$15.1 million and \$15.3 million, respectively, related to intangible assets subject to amortization.

**7. Debt**

The Company's debt obligations as of September 30, 2014 and December 31, 2013 consisted of the following (in millions):

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
US Dollar revolving loan under the Amended Credit Agreement	\$ 112.5	\$ 112.5
US Dollar notes under the Note Purchase Agreement	240.0	240.0
Capital lease obligations and other loans	2.7	2.5
Total debt	355.2	355.0
Current portion of long-term debt	(0.7)	(0.7)
Total long-term debt, less current portion	\$ 354.5	\$ 354.3

Table of Contents

In May 2011, the Company entered into an amendment to, and restatement of, its credit agreement, referred to as the Amended Credit Agreement. The Amended Credit Agreement provides a maximum commitment on the Company's revolving credit line of \$250.0 million and a maturity date of May 2016. Borrowings under the revolving credit line of the Amended Credit Agreement accrue interest, at the Company's option, at either (a) the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) adjusted LIBOR plus 1.00% or (b) LIBOR, plus margins ranging from 0.80% to 1.65%. There is also a facility fee ranging from 0.20% to 0.35%.

Borrowings under the Amended Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the Amended Credit Agreement, and Bruker Energy & Supercon Technologies, Inc. The Amended Credit Agreement also requires the Company to maintain certain financial ratios related to maximum leverage and minimum interest coverage. Specifically, the Company's leverage ratio cannot exceed 3.0 and the Company's interest coverage ratio cannot be less than 3.0. As of September 30, 2014, the Company was in compliance with the covenants of the Amended Credit Agreement. In addition to the financial ratios, the Amended Credit Agreement restricts, among other things, the Company's ability to do the following: make certain payments; incur additional debt; incur certain liens; make certain investments, including derivative agreements; merge, consolidate, sell or transfer all or substantially all of its assets; and enter into certain transactions with affiliates. Failure to comply with any of these restrictions or covenants may result in an event of default under the Amended Credit Agreement, which could permit acceleration of the debt and require the Company to prepay the debt before its scheduled due date.

The following is a summary of the maximum commitments and net amounts available to the Company under revolving loans and lines of credit as of September 30, 2014 (in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Letters of Credit	Total Amount Available
Amended Credit Agreement	1.3%	\$ 250.0	\$ 112.5	\$ 7.4	\$ 130.1
Other revolving loans		260.3		138.3	122.0
Total revolving loans		\$ 510.3	\$ 112.5	\$ 145.7	\$ 252.1

Other revolving lines of credit are with various financial institutions located primarily in Germany and Switzerland. The Company's other revolving lines of credit, both secured and unsecured, are typically due upon demand with interest payable monthly.

In January 2012, the Company entered into a note purchase agreement, referred to as the Note Purchase Agreement, with a group of accredited institutional investors. Pursuant to the Note Purchase Agreement, the Company issued and sold \$240.0 million of senior notes, referred to as the Senior Notes, which consist of the following:

- \$20 million 3.16% Series 2012A Senior Notes, Tranche A, due January 18, 2017;
- \$15 million 3.74% Series 2012A Senior Notes, Tranche B, due January 18, 2019;
- \$105 million 4.31% Series 2012A Senior Notes, Tranche C, due January 18, 2022; and

## Edgar Filing: BRUKER CORP - Form 10-Q

- \$100 million 4.46% Series 2012A Senior Notes, Tranche D, due January 18, 2024.

Under the terms of the Note Purchase Agreement, the Company may issue and sell additional senior notes up to an aggregate principal amount of \$600 million, subject to certain conditions. Interest on the Senior Notes is payable semi-annually on January 18 and July 18 of each year. The Senior Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed by certain of the Company's direct and indirect subsidiaries. The Senior Notes rank pari passu in right of repayment with the Company's other senior unsecured indebtedness. The Company may prepay some or all of the Senior Notes at any time in an amount not less than 10% of the original aggregate principal amount of the Senior Notes to be prepaid, at a price equal to the sum of (a) 100% of the principal amount thereof, plus accrued and unpaid interest, and (b) the applicable make-whole amount, upon not less than 30 and no more than 60 days written notice to the holders of the Senior



Table of Contents

Notes. In the event of a change in control of the Company, as defined in the Note Purchase Agreement, the Company may be required to prepay the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest.

The Note Purchase Agreement contains affirmative covenants, including, without limitation, maintenance of corporate existence, compliance with laws, maintenance of insurance and properties, payment of taxes, addition of subsidiary guarantors and furnishing notices and other information. The Note Purchase Agreement also contains certain restrictive covenants that restrict the Company's ability to, among other things, incur liens, transfer or sell assets, engage in certain mergers and consolidations and enter into transactions with affiliates. The Note Purchase Agreement also includes customary representations and warranties and events of default. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding Senior Notes will become due and payable immediately without further action or notice. In the case of payment events of default, any holder of Senior Notes affected thereby may declare all Senior Notes held by it due and payable immediately. In the case of any other event of default, a majority of the holders of the Senior Notes may declare all the Senior Notes to be due and payable immediately. Pursuant to the Note Purchase Agreement, so long as any Senior Notes are outstanding the Company will not permit (i) its leverage ratio, as determined pursuant to the Note Purchase Agreement, as of the end of any fiscal quarter to exceed 3.50 to 1.00, (ii) its interest coverage ratio as determined pursuant to the Note Purchase Agreement as of the end of any fiscal quarter for any period of four consecutive fiscal quarters to be less than 2.50 to 1 or (iii) priority debt at any time to exceed 25% of consolidated net worth, as determined pursuant to the Note Purchase Agreement.

As of September 30, 2014, the Company was in compliance with the covenants of the Note Purchase Agreement.

**8. Derivative Instruments and Hedging Activities**

***Interest Rate Risks***

The Company's exposure to interest rate risk relates primarily to outstanding variable rate debt and adverse movements in the related short-term market rates. The most significant component of the Company's interest rate risk relates to amounts outstanding under the Amended Credit Agreement, which totaled \$112.5 million at September 30, 2014. The Company currently has a higher level of fixed rate debt, which limits the exposure to adverse movements in interest rates.

***Foreign Exchange Rate Risk Management***

The Company generates a substantial portion of its revenues and expenses in international markets, principally Germany and other countries in the European Union, Switzerland and Japan, which subjects its operations to the exposure of exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. The Company periodically enters into foreign currency contracts in order to minimize the volatility that fluctuations in exchange rates have on its monetary transactions. Under these arrangements, the Company typically agrees to purchase a fixed amount of a foreign currency in exchange for a fixed amount of U.S. Dollars or other currencies on specified dates with maturities of less than twelve months. These transactions do not qualify for hedge accounting and, accordingly, the instrument is recorded at fair value with the corresponding gains and losses recorded in the consolidated statements of income and comprehensive income. The Company had the following notional amounts outstanding under foreign currency contracts as of September 30, 2014 and December 31, 2013 (in millions):



# Edgar Filing: BRUKER CORP - Form 10-Q

## Table of Contents

Buy	Notional Amount in Buy Currency	Sell	Maturity	Notional Amount in U.S. Dollars	Fair Value of Assets	Fair Value of Liabilities
September 30, 2014:						
Euro	42.4	U.S. Dollars	October 2014	\$ 57.6	\$	\$ 4.0
Yen	9.6	Euro	October 2014	0.1		
Swiss Francs	44.4	U.S. Dollars	October 2014	49.8		3.2
				\$ 107.5	\$	\$ 7.2
December 31, 2013:						
Euro			January 2014 to March 2014	\$ 54.5	\$ 1.1	\$
Swiss Francs	37.9	U.S. Dollars	January 2014	41.4	1.2	
				\$ 95.9	\$ 2.3	\$

In addition, the Company periodically enters into purchase and sales contracts denominated in currencies other than the functional currency of the parties to the transaction. The Company accounts for these transactions separately valuing the embedded derivative component of these contracts. The contracts denominated in currencies other than the functional currency of the transacting parties amounted to \$29.7 million for the delivery of products and \$9.7 million for the purchase of products at September 30, 2014 and \$21.7 million for the delivery of products and \$9.5 million for the purchase of products at December 31, 2013. The changes in the fair value of these embedded derivatives are recorded as foreign currency exchange gains/losses in Interest and Other Income (Expense), net in the condensed consolidated statements of income and comprehensive income.

## Commodity Price Risk Management

The Company has an arrangement with a customer under which it has a firm commitment to deliver copper based superconductors at a fixed price. In order to minimize the volatility that fluctuations in the price of copper have on the Company's sales of these superconductors, the Company enters into commodity hedge contracts. At September 30, 2014 and December 31, 2013, the Company had fixed price commodity contracts with notional amounts aggregating \$3.6 million and \$3.4 million, respectively. The changes in the fair value of these commodity contracts are recorded in Interest and Other Income (Expense), net in the condensed consolidated statements of income and comprehensive income.

The fair value of the derivative instruments described above is recorded in the consolidated balance sheets for the periods as follows (in millions):

	Balance Sheet Location	September 30, 2014	December 31, 2013
Derivative assets:			
Foreign exchange contracts	Other current assets	\$	\$ 2.3
Embedded derivatives in purchase and delivery contracts	Other current assets	0.3	0.2
Fixed price commodity contracts	Other current assets		0.1
Derivative liabilities:			
Foreign exchange contracts	Other current liabilities	\$ 7.2	\$
Embedded derivatives in purchase and delivery contracts	Other current liabilities	0.3	0.4
Fixed price commodity contracts	Other current liabilities	0.1	

The impact on net income of unrealized gains and losses resulting from changes in the fair value of derivative instruments not designated as hedging instruments are as follows (in millions):

Table of Contents

	Three Months Ended September 30,		2013		Nine Months Ended September 30,		2013	
	2014		2013		2014		2013	
Foreign exchange contracts	\$	(6.3)	\$	5.7	\$	(9.5)	\$	2.9
Embedded derivatives		0.2		(0.4)		0.2		(0.2)
Fixed price commodity contracts		(0.2)		0.5		(0.2)		0.3
Income (expense), net	\$	(6.3)	\$	5.8	\$	(9.5)	\$	3.0

The amounts related to derivative instruments not designated as hedging instruments are recorded in Interest and Other Income (Expense), net in the condensed consolidated statements of income and comprehensive income.

## 9. Provision for Income Taxes

The Company accounts for income taxes using the asset and liability approach by recognizing deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. The Company records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. In addition, the Company accounts for uncertain tax positions that have reached a minimum recognition threshold.

The income tax provision for the three months ended September 30, 2014 and 2013 was \$2.7 million and \$9.9 million, respectively, representing effective tax rates of 30.0% and 36.9%, respectively. The income tax provision for the nine months ended September 30, 2014 and 2013 was \$24.7 million and \$24.9 million respectively, representing effective tax rates of 42.7% and 35.2%, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2014 differed from the statutory rate primarily due to unbenefited domestic losses. The Company's effective tax rate may change over time as the amount or mix of income and taxes changes amongst the jurisdictions in which the Company is subject to tax.

As of September 30, 2014 and December 31, 2013, the Company has unrecognized tax benefits, excluding penalties and interest, of approximately \$31.7 million and \$32.7 million, respectively, of which \$13.8 million and \$14.1 million, if recognized, would result in a reduction of the Company's effective tax rate. The Company recognizes penalties and interest related to unrecognized tax benefits in the provision for income taxes. As of September 30, 2014 and December 31, 2013, approximately \$3.9 million and \$3.8 million, respectively, of accrued interest and penalties related to uncertain tax positions was included in other long-term liabilities on the unaudited condensed consolidated balance sheets. Penalties and interest related to unrecognized tax benefits of \$0.2 million were recorded in the provision for income taxes during the three and nine months ended September 30, 2014. Penalties and interest related to unrecognized tax benefits of \$0.3 million and \$(0.1) million were recorded during the three and nine months ended September 30, 2013, respectively.

The Company files tax returns in the United States, which include federal, state and local jurisdictions, and many foreign jurisdictions with varying statutes of limitations. The Company considers Germany, the United States and Switzerland to be its significant tax jurisdictions. The tax years 2009 to 2013 are open tax years in these significant jurisdictions. During the three months ended March 31, 2014, the Company settled a tax audit in the United States for the tax year 2010. The amount of the settlement was immaterial to the condensed consolidated financial statements. Tax years 2011 to 2013 remain open for examination in the United States.

**10. Commitments and Contingencies**

*Legal*

Lawsuits, claims and proceedings of a nature considered normal to its businesses may be pending from time to time against the Company. The Company believes the outcome of these proceedings, individually and in the aggregate, will not have a material impact on the Company's financial position or results of operations. As of September 30, 2014 and December 31, 2013, accruals recorded for such potential contingencies were immaterial to the condensed consolidated financial statements.

*Internal Investigation and Compliance Matters*

As previously reported, the Audit Committee of the Company's Board of Directors, assisted by independent outside counsel and an independent forensic consulting firm, conducted an internal investigation in response to anonymous communications received by the Company alleging improper conduct in connection with the China operations of the

Table of Contents

Company's Bruker Optics subsidiary. The Audit Committee's investigation, which began in 2011 and was completed in the first quarter of 2012, included a review of compliance by Bruker Optics and its employees in China and Hong Kong with the requirements of the Foreign Corrupt Practices Act (FCPA) and other applicable laws and regulations.

Also as previously reported, the investigation found evidence indicating that payments were made that improperly benefited employees or agents of government-owned enterprises in China and Hong Kong. The investigation also found evidence that certain employees of Bruker Optics in China and Hong Kong failed to comply with the Company's policies and standards of conduct. As a result, the Company took personnel actions, including the termination of certain individuals. The Company also terminated its business relationships with certain third party agents, implemented an enhanced FCPA compliance program, and strengthened the financial controls and oversight at its subsidiaries operating in China and Hong Kong. During 2011, the Company also initiated a review of the China operations of its other subsidiaries, with the assistance of an independent audit firm. On the basis of this review, the Company identified additional employees in Bruker subsidiaries operating in China who failed to comply with the Company's policies and standards of conduct, and took additional personnel actions at certain of its subsidiaries.

In August 2011, the Company voluntarily contacted the United States Securities and Exchange Commission (SEC) and the United States Department of Justice (DOJ) to advise both agencies of the internal investigation by the Audit Committee regarding the China operations of the Company's Bruker Optics subsidiary. In October 2011, the Company reported the existence of the internal investigation to the Hong Kong Joint Financial Intelligence Unit and Independent Commission Against Corruption (ICAC). The Company has cooperated with the United States federal agencies and Hong Kong government authorities with respect to their inquiries and has provided documents and/or made witnesses available in response to requests from the governmental authorities reviewing this matter. The FCPA and related statutes and regulations provide for potential monetary penalties as well as criminal and civil sanctions in connection with FCPA violations.

The Company has been advised that the ICAC has completed its review and does not plan to take any action against the Company. The Company is engaged in discussions with Staff of the SEC to resolve the matters under investigation. During the three months ended September 30, 2014, the Company accrued \$2.4 million recorded within Interest and Other Income (Expense), net in the accompanying condensed consolidated statements of income and comprehensive income representing the Company's best estimate of probable loss associated with this matter. The Company will continue to evaluate the accrual pending final resolution of the investigation and the related discussions with the SEC and DOJ.

*Letters of Credit and Guarantees*

At September 30, 2014 and December 31, 2013, the Company had bank guarantees of \$145.7 million and \$171.2 million, respectively, for its customer advances. These arrangements guarantee the refund of advance payments received from customers in the event that the merchandise is not delivered or warranty obligations are not fulfilled in compliance with the terms of the contract. These guarantees affect the availability of the Company's lines of credit.

**11. Accumulated Other Comprehensive Income (Loss)**

Comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in other comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity, net of tax. The Company's other

## Edgar Filing: BRUKER CORP - Form 10-Q

comprehensive income (loss) is composed primarily of foreign currency translation adjustments and changes in the funded status of defined benefit pension plans. The following is a summary of comprehensive income (loss) (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Consolidated net income	\$ 6.3	\$ 16.9	\$ 33.1	\$ 45.9
Foreign currency translation adjustments	(84.1)	37.6	(84.7)	12.3
Pension liability adjustments	1.1	(1.0)	1.0	0.7
Other			0.3	
Net comprehensive income (loss)	(76.7)	53.5	(50.3)	58.9
Less: Comprehensive income (loss) attributable to noncontrolling interests	0.8	0.3	2.5	1.0
Comprehensive income (loss) attributable to Bruker Corporation	\$ (77.5)	\$ 53.2	\$ (52.8)	\$ 57.9



## Table of Contents

The following is a summary of the components of accumulated other comprehensive income (loss), net of tax, at September 30, 2014 (in millions):

	Foreign Currency Translation	Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance at December 31, 2013	\$ 197.6	\$ (15.2)	\$ 182.4
Other comprehensive income (loss) before reclassifications	(84.7)	1.0	(83.7)
Balance at September 30, 2014	\$ 112.9	\$ (14.2)	\$ 98.7

## 12. Noncontrolling Interests

Noncontrolling interests represent the minority shareholders' proportionate share of the Company's majority owned subsidiaries. The following table sets forth the changes in noncontrolling interests (in millions):

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
Balance at beginning of period	\$	5.1	\$	3.8	\$	4.1	\$	3.1
Net income		0.8		0.3		2.5		1.0
Cash payments to noncontrolling interests				(0.6)		(1.1)		(0.6)
Other		(0.3)				0.1		
Balance at end of period	\$	5.6	\$	3.5	\$	5.6	\$	3.5

## 13. Other Charges

The components of Other Charges were as follows (in millions):

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
Professional fees incurred in connection with internal investigation	\$	0.3	\$	0.7	\$	3.1	\$	5.3
Acquisition-related charges		1.2		1.1		2.1		1.6
Information technology transformation costs		1.1				2.4		
Restructuring charges		2.8		8.6		7.0		13.6
Long-lived asset impairments		6.9				6.9		
Factory relocation costs				0.1				0.6
Other charges	\$	12.3	\$	10.5	\$	21.5	\$	21.1

Beginning in the fourth quarter of 2012 and continuing in 2013 and 2014, the Company commenced productivity improvement initiatives at both BSI and BEST in an effort to better optimize its operations. These restructuring initiatives include the divestiture of certain non-core businesses,

## Edgar Filing: BRUKER CORP - Form 10-Q

outsourcing of various manufacturing activities, transferring or ceasing operations at certain facilities and an overall right-sizing within the Company based on the then current business environments.

The Company recorded total restructuring charges during the three and nine months ended September 30, 2014 of \$16.2 million and \$29.3 million, respectively, related to these initiatives, all within BSI. For the three months ended September 30, 2014, the charges consisted of \$10.1 million of inventory provisions for excess inventory, \$4.1 million of severance costs and \$2.0 million of exit related costs, such as professional service and facility exit charges. For the nine months ended September 30, 2014, the charges consisted of \$12.1 million of inventory provisions for excess inventory, \$11.3 million of severance costs and \$5.9 million of exit related costs. During the three and nine months ended September 30, 2014, the Company has recorded restructuring charges of \$13.4 million and \$22.3 million, respectively, as a component of Cost of Revenue and \$2.8 million and \$7.0 million, respectively, as a component of Other Charges in the accompanying condensed consolidated statement of income

Table of Contents

and comprehensive income.

In July 2014, the Company's Board of Directors approved a plan (the Plan) to divest certain assets and implement a restructuring program in the CAM division within the Bruker CALID Group. The Plan was developed as a result of management's conclusion that the CAM business would be unable to achieve acceptable financial performance in the next two years. Divestment and restructuring actions in connection with the Plan are expected to result in a reduction of CAM's employee headcount by approximately 200 people. Restructuring and other one-time charges in connection with the Plan through the first half of 2015, including costs recorded in the third of quarter of 2014, are expected to be between \$25 and \$30 million, of which \$8 to \$11 million relate to employee separation and facility exit costs, and \$17 to \$19 million are estimated for inventory write-downs and asset impairments. The current expected restructuring and other one-time charges in connection with the Plan are lower than previously announced due to divestiture activity noted below.

Included in the total restructuring charges discussed above are restructuring expenses recorded during the third quarter of 2014 specifically related to the Plan of \$13.1 million, consisting of \$10.1 million for inventory write-downs and \$3.0 million of severance and exit costs, of which \$11.1 was recorded as a component of Cost of Revenue and \$2.0 million as a component of Other Charges, net in the accompanying condensed consolidated statement of income and comprehensive income. The Company determined the approval of the Plan was an indicator requiring the evaluation of the long-lived assets, which included property, plant and equipment and definite-lived intangible assets, within the CAM division for recoverability. The Company performed a valuation during the three months ended September 30, 2014 and determined that certain long-lived assets were impaired. The Company recorded an impairment charge of \$6.9 million in the three and nine months ended September 30, 2014, consisting of \$5.5 million of property, plant and equipment, and \$1.4 million of definite-lived intangible assets. This impairment charge is included as a component of Other Charges in the accompanying condensed consolidated statement of income and comprehensive income.

In addition, in September 2014 the Company divested the assets of the CAM division's Inductively Coupled Plasma-Mass Spectrometry (ICP-MS) product line. The gain on sale of the product line of \$8.7 million has been recorded as part of Interest and Other Income (Expense), net within the accompanying condensed consolidated statement of income and comprehensive income.

Please see Note 17 – Subsequent Events, for information regarding activity subsequent to September 30, 2014 related to the Plan.

The following table sets forth the changes in the restructuring reserves for the nine months ended September 30, 2014 (in millions):

	Total	Provisions for Excess Inventory	Severance	Exit Costs
Balance at December 31, 2013	\$ 11.5	\$ 2.0	\$ 8.4	\$ 1.1
Restructuring charges	29.3	12.1	11.3	5.9
Cash payments	(16.1)	(0.1)	(10.0)	(6.0)
Non-cash adjustments	(3.9)	(2.2)	(1.4)	(0.3)
Foreign currency effect	(0.8)	(0.1)	(0.6)	(0.1)
Balance at September 30, 2014	\$ 20.0	11.7	\$ 7.7	\$ 0.6

#### 14. Interest and Other Income (Expense), Net

# Edgar Filing: BRUKER CORP - Form 10-Q

The components of interest and other income (expense), net, were as follows (in millions):

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
Interest expense, net	\$	(3.2)	\$	(3.2)	\$	(9.3)	\$	(9.4)
Exchange gains (losses) on foreign currency transactions		0.5		(1.7)		(1.1)		(6.8)
Gain on disposal of product line		8.7				9.0		0.9
Other		(1.9)		0.2		(1.7)		(1.1)
Interest and other income (expense), net	\$	4.1	\$	(4.7)	\$	(3.1)	\$	(16.4)

Table of Contents**15. Business Segment Information**

The Company has two reporting segments, BSI and BEST, as discussed in Footnote 1 to the condensed consolidated financial statements.

Revenue and operating income by reporting segment are presented below (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
BSI	\$ 383.4	\$ 410.6	\$ 1,198.8	\$ 1,198.5
BEST	40.0	32.5	116.2	100.8
Eliminations (a)	(3.6)	(4.1)	(14.1)	(12.0)
Total revenue	\$ 419.8	\$ 439.0	\$ 1,300.9	\$ 1,287.3
Operating Income (Loss):				
BSI	\$ 0.8	\$ 33.8	\$ 48.5	\$ 84.0
BEST	3.9	(0.8)	11.1	6.7
Corporate, eliminations and other (b)	0.2	(1.5)	1.3	(3.5)
Total operating income	\$ 4.9	\$ 31.5	\$ 60.9	\$ 87.2

(a) Represents product and service revenue between reportable segments.

(b) Represents corporate costs and eliminations not allocated to the reportable segments.

Total assets by reporting segment are as follows (in millions):

	September 30, 2014	December 31, 2013
Assets:		
BSI	\$ 1,864.9	\$ 1,925.3
BEST	107.1	146.5
Eliminations and other (a)	(61.4)	(83.5)
Total assets	\$ 1,910.6	\$ 1,988.3

(a) Assets not allocated to the reportable segments and eliminations of intercompany transactions.

**16. Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under ASC Topic 605. The new guidance was the result of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop common revenue standards for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. The Company is currently assessing the impact of adoption of the new guidance may have on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, an amendment to ASC Topic 205. Under the amendment, a disposal of a component of an entity or a group of components of an entity are required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The amendment also requires additional disclosures about discontinued operations as well as individually significant components of an entity that do not

Table of Contents

qualify for discontinued operations presentation in the financial statements. ASU No. 2014-08 is effective on a prospective basis for fiscal years beginning after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015, with early adoption permitted. The Company adopted this amendment in the second quarter of 2014 and has incorporated the guidance within its financial statements and related footnote disclosures. The adoption did not have a material impact on its condensed consolidated financial statements for the three or nine months ended September 30, 2014.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes*, an amendment to ASC Topic 740 related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Under this amendment, an unrecognized tax benefit is to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. ASU No. 2013-11 is effective for fiscal years beginning after December 15, 2013. The Company adopted this amendment in the first quarter of 2014. The adoption did not have a material impact on its condensed consolidated financial statements for the three or nine months ended September 30, 2014.

**17. Subsequent Events**

In October 2014, as part of the Plan discussed in Note 13. Other Charges, net above, the Company divested certain assets of the Gas Chromatography and Gas Chromatography Single Quadrupole mass spectrometry products of the CAM division. The sale will be accounted for in the fourth quarter of 2014. The total assets sold and resulting gain (loss) on sale is not material to the condensed consolidated financial statements.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations should be read in conjunction with our interim unaudited condensed consolidated financial statements and the notes to those statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, and in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, which express that we believe, anticipate, plan, expect, seek, estimate, or should, as well as other statements, which are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual events or results may differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference are discussed in Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013.

Although our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), we believe describing income and expenses, excluding the effect of foreign exchange and our recent acquisitions and divestitures, as well as certain other charges, net, provides meaningful supplemental information regarding our performance. We believe that this supplemental information is useful in assessing our operating performance and trends as the excluded items are not indicative of our core business operating results. These non-GAAP financial measures are not in accordance with, nor are they a substitute for,

## Edgar Filing: BRUKER CORP - Form 10-Q

the comparable GAAP financial measures and are intended to supplement our financial results that are prepared in accordance with GAAP. We also use these non-GAAP financial measures for financial and operational decision making, including part of our compensation to employees, and as a means to help evaluate period-to-period comparisons.

### OVERVIEW

We are organized into four operating segments: the Bruker BioSpin Group, the Bruker CALID Group, the Bruker MAT Group, and the Bruker Energy & Supercon Technologies (BEST) division.

The Bruker BioSpin Group combines the Bruker Magnetic Resonance and Preclinical Imaging divisions and designs,



Table of Contents

manufactures and distributes enabling life science tools based on magnetic resonance technology.

The Bruker CALID Group combines the Bruker Life Sciences and Clinical (LSC), Bruker Chemical and Applied Markets (CAM), Bruker Detection and Bruker Optics divisions and designs, manufactures, and distributes mass spectrometry and chromatography instruments and solutions for life sciences, including proteomics, metabolomics and clinical research applications. Our mass spectrometry and chromatography instruments also provide solutions for applied markets that include food safety, environmental analysis and petrochemical analysis. Bruker CALID also designs, manufactures and distributes various analytical instruments for CBRNE detection and research, as well as analytical, research and process analysis instruments and solutions based on infrared and Raman molecular spectroscopy technologies.

The Bruker MAT Group includes the Bruker AXS, Bruker Nano Surfaces, Bruker Nano Analytical and Bruker Elemental divisions and designs, manufactures and distributes advanced X-ray, spark-optical emission spectroscopy, atomic force microscopy and stylus and optical metrology instrumentation used in non-destructive molecular, materials and elemental analysis.

The BEST division designs, manufactures and distributes low temperature superconductor and high temperature superconductor materials for use in advanced magnet technology and energy applications as well as linear accelerators, accelerator cavities, insertion devices, other accelerator components and specialty superconducting magnets for physics and energy research and a variety of other scientific applications.

For financial reporting purposes, we aggregate Bruker BioSpin, Bruker CALID and Bruker MAT operating segments into the Bruker Scientific Instruments (BSI) reporting segment, which represented approximately 92% of the Company's revenues during the nine months ended September 30, 2014. This aggregation reflects these operating segments' similar economic characteristics, production processes, customer services provided, types and classes of customers, methods of distribution and regulatory environments. Our BEST division is our other reporting segment and represents the remainder of our revenues.

Our diverse customer base includes life science, pharmaceutical, biotechnology and molecular diagnostic research companies, academic institutions, advanced materials and semiconductor industries and government agencies.

For the three months ended September 30, 2014, our revenue decreased by \$19.2 million, or 4.4%, to \$419.8 million, compared to \$439.0 million for the comparable period in 2013. Reduced orders of NMR systems from governmental and academic research customers; continued weakness in semiconductor, data storage and microelectronic industries; increased competition from Japanese companies resulting from the strengthening of the U.S. Dollar and the Euro against the Japanese Yen; the effect of geopolitical uncertainty on obtaining export licenses for our products; and the restructuring initiatives and sale of the ICP-MS product line within our CAM division all contributed to the decline. We are uncertain whether the recent market conditions will continue or how our revenue derived from those market segments may be affected.

Our gross profit margin decreased to 39.9% from 44.0% during the three months ended September 30, 2014 and 2013, respectively. The lower revenue was the primary driver of the decrease. Selling, general and administrative expenses and research and development costs combined were relatively consistent with the prior year, resulting primarily from previously announced restructuring and cost containment efforts. While the actions mitigated some of the adverse effect on operating income and net income, we will take additional restructuring measures as a result of the third quarter revenue decline.

## Edgar Filing: BRUKER CORP - Form 10-Q

In addition to the above, we can also experience quarter-to-quarter fluctuations in our operating results as a result of factors outside our control, such as:

- sales of infrequent, but high value system solutions, such as the Bruker BioSpin Group's ultra-high field magnets, the Bruker CALID Group's fourier transform mass spectrometry systems (FTMS) and the Bruker MAT Group's atomic force microscopy systems;
- the timing of governmental stimulus programs and academic research budgets;
- the time it takes for customers to construct or prepare their facilities for our products;
- the time required to obtain governmental licenses;

These factors have in the past affected the timing of recognizing revenue associated with our products and will continue to do so in the future. Accordingly, our operating results in any particular quarter may not necessarily be an indication of any future quarter's operating performance. We are also uncertain to what extent our operations may be impacted by the recent geopolitical instability in Russia. For the nine months ended September 30, 2014, sales to customers in Russia represented approximately 1 % of our revenue, consistent with the percentage in 2013 on an annual basis.

Table of Contents

**CRITICAL ACCOUNTING POLICIES**

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience, current market and economic conditions, industry trends, and other assumptions that we believe are reasonable and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following critical accounting policies to be both those most important to the portrayal of our financial position and results of operations and those that require the most subjective judgment:

- Revenue recognition;
- Accounting for income taxes;
- Valuation of inventory; and
- Goodwill, other intangible assets and other long-lived assets.

For a further discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2013. There were no significant changes to our critical accounting policies for the nine months ended September 30, 2014.

**RESULTS OF OPERATIONS**

*Three Months Ended September 30, 2014 compared to the Three Months Ended September 30, 2013*

***Consolidated Results***

The following table presents our results for the three months ended September 30, 2014 and 2013 (dollars in millions, except per share data):



Table of Contents

	Three Months Ended September 30,	
	2014	2013
Product revenue	\$ 362.2	\$ 385.0
Service revenue	56.0	53.1
Other revenue	1.6	0.9
Total revenue	419.8	439.0
Cost of product revenue	214.6	208.6
Cost of service revenue	37.9	37.2
Total cost of revenue	252.5	245.8
Gross profit	167.3	193.2
Operating expenses:		
Selling, general and administrative	108.0	105.7
Research and development	42.1	45.5
Other charges	12.3	10.5
Total operating expenses	162.4	161.7
Operating income	4.9	31.5
Interest and other income (expense), net	4.1	(4.7)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	9.0	26.8
Income tax provision	2.7	9.9
Consolidated net income	6.3	16.9
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.8	0.3
Net income attributable to Bruker Corporation	\$ 5.5	\$ 16.6
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	\$ 0.03	\$ 0.10
Weighted average common shares outstanding:		
Basic	168.0	167.0
Diluted	169.6	168.7

**Revenue**

For the three months ended September 30, 2014, our revenue decreased by \$19.2 million, or 4.4%, to \$419.8 million, compared to \$439.0 million for the comparable period in 2013. Within BSI, there was a decrease in revenue in the Bruker BioSpin Group driven by lower sales within the Magnetic Resonance division. The principal drivers of this decline were reduced orders of NMR systems from governmental and academic research customers and increased competition from Japanese based companies resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen.

The Bruker CALID Group had a decrease in revenue, particularly in the CAM division, in part due to the impact of divestiture and restructuring actions implemented during the third quarter of 2014, and in the Detection division due to delays in obtaining export licenses related to certain orders. These declines were partially offset by increases in sales of mass spectrometry products by the LSC division, including the ESI-TOF and the MALDI Biotyper.

Revenue within the Bruker MAT Group also decreased compared to the prior year. The principal drivers of this decline were: continued weakness in end market demand for our semiconductor, data storage and microelectronics products; the pricing advantage our Japanese based

## Edgar Filing: BRUKER CORP - Form 10-Q

competitors have resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen; and in our AXS division, reduced demand from customers in Russia as a result of the geopolitical uncertainty in the region. These declines were partially offset by revenue generated from the recently acquired line of fluorescence microscopy products.

Revenue in the BEST segment increased due to higher sales of cavity devices and low temperature superconducting wire.

Table of Contents

Included in revenue was a decrease of approximately \$1.5 million from the impact of changes in foreign exchange rates, primarily due to a strengthening of the U.S. Dollar against a number of currencies, including the Japanese Yen, and an increase of approximately \$3.5 million attributable to recent acquisitions. Excluding the effect of changes in foreign exchange rates and recent acquisitions, revenue decreased by \$21.2 million, or 4.8%.

***Gross Profit***

Gross profit for the three months ended September 30, 2014 was \$167.3 million, or 39.9% of revenue, compared to \$193.2 million, or 44.0% of revenue, for the three months ended September 30, 2013. Included in gross profit were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, and restructuring costs totaling \$18.2 million and \$5.0 million for the three months ended September 30, 2014 and 2013, respectively. Excluding these charges, our gross profit margin for the three months ended September 30, 2014 and 2013 was 44.2% and 45.1%, respectively. The lower gross profit margin is mainly attributable to an overall decline in revenue compared to the prior year, the mix of products sold and the negative effect of foreign exchange rates driven by the impact of the strengthening of the U.S. Dollar versus the Japanese Yen, as our Yen denominated revenue substantially exceeded our Yen denominated expenses.

***Selling, General and Administrative***

Our selling, general and administrative expenses for the three months ended September 30, 2014 increased to \$108.0 million, or 25.7 % of total revenue, from \$105.7 million, or 24.1% of total revenue, for the comparable period in 2013. The increase in selling, general and administrative expenses was primarily attributable to the hiring of new senior management, general and administrative spending related to certain investments, including, financial reporting system improvements and strategic advisory services, as well as expenses relating to recent acquisitions.

***Research and Development***

Our research and development expenses for the three months ended September 30, 2014 decreased to \$42.1 million, or 10.0% of total revenue, from \$45.5 million, or 10.4% of total revenue, for the comparable period in 2013. The decrease in research and development expenses was attributable to our efforts to improve the efficiency and effectiveness of our product development process.

***Other Charges***

Other charges were \$12.3 million and \$10.5 million for the three months ended September 30, 2014 and 2013, respectively.

The charges recorded for the three months ended September 30, 2014 related to the BSI segment. The charges consisted of \$0.3 million of legal and other professional service fees associated with our internal investigation and review of our operations in China, \$1.2 million of

## Edgar Filing: BRUKER CORP - Form 10-Q

acquisition-related costs, \$2.8 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$6.9 million of long-lived asset impairment costs within the CAM division and \$1.1 million of costs associated with the initial stages of a global IT transformation initiative. The IT transformation initiative is a multi-year project aimed at updating and integrating our global ERP and HR information systems.

The charges recorded for the three months ended September 30, 2013 relate mainly to the BSI segment. The charges consisted of \$8.6 million of restructuring costs related to closing facilities and implementing outsourcing initiatives over various divisions, \$1.1 million of acquisition-related costs, \$0.7 million of legal and other professional service fees associated with our internal investigation and review of our operations in China and \$0.1 million of costs related to factory relocations that were occurring within the BEST segment.

### *Operating Income*

Income from operations for the three months ended September 30, 2014 was \$4.9 million, resulting in an operating margin of 1.2%, compared to income from operations of \$31.5 million, resulting in an operating margin of 7.2%, for the three months ended September 30, 2013. Income from operations included restructuring costs of \$16.2 million and \$8.6 million during the three months ended September 30, 2014 and 2013, respectively, related to closing facilities and implementing outsourcing and other restructuring initiatives. In July 2014, our Board of Directors approved a plan (the "Plan") to divest certain assets and implement a restructuring program in the CAM division within the Bruker CALID Group. Restructuring costs associated with



Table of Contents

the Plan of \$13.1 million represented the largest component of our restructuring charges during the during the third quarter of 2014.

The Plan was developed as a result of management's conclusion that the CAM business would be unable to achieve acceptable financial performance in the next two years. Divestment and restructuring actions in connection with the Plan are expected to result in a reduction of CAM's employee headcount by approximately 200 people. Restructuring and other one-time charges in connection with the Plan through the first half of 2015, including costs recorded in the third of quarter of 2014, are expected to be between \$25 and \$30 million, of which \$8 to \$11 million relate to employee separation and facility exit costs, and \$17 to \$19 million are estimated for inventory write-downs and asset impairments. In addition, in September 2014 as part of the Plan, the Company divested certain assets of the ICP-MS product line. The gain on sale of the ICP-MS product line of \$8.7 million has been recorded as part of Interest and Other Income (Expense), net. A divestiture of certain assets within the CAM division was completed in October 2014. The current expected restructuring and other one-time charges in connection with the Plan are lower than previously announced due to divestiture activity.

Income from operations also included \$14.8 million and \$7.2 million for the three months ended September 30, 2014 and 2013, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, legal and other professional service fees related to our internal investigation and review of our operations in China, impairment of long-lived assets and costs associated with a global information technology (IT) transformation initiative. The largest component of this charge in the third quarter of 2014 was an asset impairment charge of \$6.9 million associated with the Plan. Excluding the charges noted above, operating margins were 8.6% and 10.8% for the three months ended September 30, 2014 and 2013, respectively.

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net during the three months ended September 30, 2014 was income of \$4.1 million, as compared to an expense of \$(4.7) million for the comparable period of 2013.

During the three months ended September 30, 2014, the major components within interest and other income (expense), net were a gain on the sale of a product line of \$8.7 million, partially offset by net interest expense of \$3.2 million and a settlement accrual related to the ongoing review of our operations in China of \$2.4 million. During the three months ended September 30, 2013, the major components within interest and other income (expense), net were net interest expense of \$3.2 million and realized and unrealized losses on foreign currency denominated transactions of \$1.7 million.

***Income Tax Provision***

The 2014 and 2013 effective tax rates were calculated using our projected annual pre-tax income or loss. The effects of tax credits, the expected level of other tax benefits and the impact of changes to the valuation allowance, as well as changes in the mix of our pre-tax income and losses among jurisdictions with varying statutory tax rates and credits, were also considered in the calculation.

## Edgar Filing: BRUKER CORP - Form 10-Q

The income tax provision for the three months ended September 30, 2014 was \$2.7 million compared to \$9.9 million for the three months ended September 30, 2013, representing effective tax rates of 30.0% and 36.9%, respectively. The decrease in our effective tax rate was primarily due to changes in the expected mix of earnings among tax jurisdictions.

### ***Net Income Attributable to Noncontrolling Interests***

Net income attributable to noncontrolling interests for the three months ended September 30, 2014 and 2013 was \$0.8 million and \$0.3 million, respectively. The net income attributable to noncontrolling interests represented the minority shareholders' proportionate share of the net income recorded by our majority-owned indirect subsidiaries.

### ***Net Income Attributable to Bruker Corporation***

Our net income for the three months ended September 30, 2014 was \$5.5 million, or \$0.03 per diluted share, compared to \$16.6 million, or \$0.10 per diluted share, for the comparable period in 2013. The decrease was driven by lower gross margin levels, partially offset by a gain on sale of a product line and lower income tax expense.

## Table of Contents

## Segment Results

### Revenue

The following table presents revenue, change in revenue and revenue growth by reportable segment (dollars in millions):

	Three Months Ended September 30,		2013		Dollar Change	Percentage Change
	2014		2013			
BSI	\$	383.4	\$	410.6	\$ (27.2)	(6.6)%
BEST		40.0		32.5	7.5	23.1%
Eliminations (a)		(3.6)		(4.1)	0.5	
	\$	419.8	\$	439.0	\$ (19.2)	(4.4)%

(a) Represents product and service revenue between reportable segments.

### BSI Segment Revenues

For the three months ended September 30, 2014, BSI segment revenue was \$383.4 million, compared to \$410.6 million for the comparable period in 2013.

The Bruker BioSpin Group experienced a decrease in revenue, driven by lower sales within the Magnetic Resonance division. The principal drivers of this decline were reduced orders of NMR systems from governmental and academic research customers and increased competition from Japanese companies resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen.

The Bruker CALID Group had a decrease in revenue, particularly in the CAM division, in part due to the impact of divestiture and restructuring actions implemented during the third quarter of 2014, and in the Detection division due to delays in obtaining export licenses related to certain orders. These declines were partially offset by increases in sales of mass spectrometry products by the LSC division, including the ESI-TOF and MALDI Biotyper products.

Revenue within the Bruker MAT Group also decreased compared to the prior year. The principal drivers of this decline were: continued weakness in end market demand for our semiconductor, data storage and microelectronics products; the pricing advantage our Japanese based competitors have resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen; and in our AXS division, reduced demand from customers in Russia as a result of the geopolitical uncertainty in the region. These declines were partially offset by revenue generated from the recently acquired line of fluorescence microscopy products.

## Edgar Filing: BRUKER CORP - Form 10-Q

Included in revenue was a decrease of approximately \$1.6 million from the impact of changes in foreign exchange rates, primarily due to a strengthening of the U.S. Dollar against a number of currencies, and an increase of approximately \$3.5 million attributable to recent acquisitions. Excluding the effect of changes in foreign exchange rates and our recent acquisitions, revenue decreased by \$29.1 million, or 7.1%.

System revenue and aftermarket revenue as a percentage of total BSI segment revenue were as follows (dollars in millions):

		Three Months Ended September 30,			
		2014		2013	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue	
System revenue	\$ 293.3	76.5%	\$ 328.1	79.9%	
Aftermarket revenue	90.1	23.5%	82.5	20.1%	
Total revenue	\$ 383.4	100.0%	\$ 410.6	100.0%	

System revenue in the BSI segment includes nuclear magnetic resonance systems, magnetic resonance imaging systems, electron paramagnetic imaging systems, mass spectrometry systems, gas chromatography systems, CBRNE detection systems,

Table of Contents

X-ray systems, spark-optical emission spectroscopy systems, atomic force microscopy systems, stylus and optical metrology systems and molecular spectroscopy systems. Aftermarket revenues in the BSI segment include accessory sales, consumables, training and services.

**BEST Segment Revenues**

BEST segment revenue increased \$7.5 million, or 23.1%, to \$40.0 million for the three months ended September 30, 2014, compared to \$32.5 million for the comparable period in 2013. The increase in revenue was attributable to higher sales of cavity devices and low temperature superconducting wire.

System and wire revenue and aftermarket revenue as a percentage of total BEST segment revenue were as follows (dollars in millions):

		2014		Three Months Ended September 30,		2013	
	Revenue		Percentage of Segment Revenue		Revenue		Percentage of Segment Revenue
System and wire revenue	\$ 39.1		97.8%	\$ 31.2		96.0%	
Aftermarket revenue	0.9		2.2%	1.3		4.0%	
Total revenue	\$ 40.0		100.0%	\$ 32.5		100.0%	

System and wire revenue in the BEST segment includes low and high temperature superconducting wire and superconducting devices, including magnets, linear accelerators and radio frequency cavities. Aftermarket revenues in the BEST segment consist primarily of license revenue and sales of Cuponal, a bimetallic, non-superconducting material we sell to the power and transport industries.

**Gross Profit and Operating Expenses**

For the three months ended September 30, 2014, gross profit margin in the BSI segment decreased to 41.2% from 46.1% for the comparable period in 2013. Lower gross profit margins resulted primarily from the impact of restructuring costs recorded during the three months ended September 30, 2014, the impact of an overall decline in revenue compared to the prior year, the mix of products sold and a negative effect of foreign exchange rates, driven by the impact of the strengthening of the U.S. Dollar versus the Japanese Yen. BEST segment gross margin increased to 22.5% from 16.3% for the comparable period in 2013 due to the completion of certain high margin orders.

In the three months ended September 30, 2014, selling, general and administrative expenses and research and development expenses in the BSI segment decreased to \$144.9 million, or 37.8% of segment revenue, from \$146.8 million, or 35.8% of segment revenue. The decrease in research and development expenses was attributable to our efforts to improve the efficiency of our product development process. This was partially offset by an increase in selling, general and administrative expenses primarily attributable to hiring of new senior management, general and administrative spending related to certain investments, including, financial reporting system improvements and strategic advisory services, as well as expenses relating to recent acquisitions. Selling, general and administrative expenses and research and development expenses in the BEST segment increased to \$5.2 million, or 13.0% of segment revenue, from \$4.4 million, or 13.5% of segment revenue, for the comparable

## Edgar Filing: BRUKER CORP - Form 10-Q

period in 2013. The increase was attributable to an increase in research and development costs.

### *Income from Operations*

The following table presents income from operations and operating margins on revenue by reportable segment (dollars in millions):

Table of Contents

	Three Months Ended September 30,			
	2014		2013	
	Percentage of Segment		Percentage of Segment	
	Operating Income (Loss)	Revenue	Operating Income (Loss)	Revenue
BSI	\$ 0.8	0.2%	\$ 33.8	8.2%
BEST	3.9	9.8%	(0.8)	(2.5)%
Corporate, eliminations and other (a)	0.2		(1.5)	
Total operating income	\$ 4.9	1.2%	\$ 31.5	7.2%

(a) Represents corporate costs and eliminations not allocated to the reportable segments.

BSI income from operations for the three months ended September 30, 2014 was \$0.8 million, resulting in an operating margin of 0.2%, compared to income from operations of \$33.8 million, resulting in an operating margin of 8.2%, for the comparable period in 2013. Income from operations included \$30.9 million and \$14.0 million for the three months ended 2014 and 2013, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, legal and other professional service fees related to our internal investigation and review of our operations in China, restructuring and relocation costs, impairment of long-lived assets and costs associated with our global IT transformation initiative. Excluding these costs, income from operations in the BSI reporting segment would have been \$31.7 million and \$47.8 million, or an operating margin of 8.3% and 11.6%, for the three months ended September 30, 2014 and 2013, respectively. Income from operations, excluding these costs, decreased as a result of lower gross margin levels, higher selling, general and administrative expenses and the negative effect of changes in foreign exchange rates, driven by the impact of the strengthening of the U.S. Dollar versus the Japanese Yen, as Yen denominated revenue substantially exceeded our Yen denominated expenses. These increases were partially offset by lower research and development expenses.

BEST income from operations for the three months ended September 30, 2014 was \$3.9 million, resulting in an operating margin of 9.8%, compared to \$(0.8) million, resulting in an operating margin of (2.5)%, for the comparable period in 2013. The increase in operating margin was a result of higher gross margin levels driven by the completion of several high margin product orders, partially offset by an increase in research and development expenses.

*Nine Months Ended September 30, 2014 compared to the Nine Months Ended September 30, 2013*

### **Consolidated Results**

The following table presents our results for the nine months ended September 30, 2014 and 2013 (dollars in millions, except per share data):

Table of Contents

	Nine Months Ended September 30,	
	2014	2013
Product revenue	\$ 1,127.2	\$ 1,119.9
Service revenue	170.7	159.3
Other revenue	3.0	8.1
Total revenue	1,300.9	1,287.3
Cost of product revenue	638.9	610.9
Cost of service revenue	114.5	107.1
Total cost of revenue	753.4	718.0
Gross profit	547.5	569.3
Operating expenses:		
Selling, general and administrative	332.5	319.6
Research and development	132.6	141.4
Other charges	21.5	21.1
Total operating expenses	486.6	482.1
Operating income	60.9	87.2
Interest and other income (expense), net	(3.1)	(16.4)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	57.8	70.8
Income tax provision	24.7	24.9
Consolidated net income	33.1	45.9
Net income attributable to noncontrolling interest in consolidated subsidiaries	2.5	1.0
Net income attributable to Bruker Corporation	\$ 30.6	\$ 44.9
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	\$ 0.18	\$ 0.27
Weighted average common shares outstanding:		
Basic	167.5	166.6
Diluted	169.5	168.4

**Revenue**

For the nine months ended September 30, 2014, our revenue increased by \$13.6 million, or 1.1%, to \$1,300.9 million, compared to \$1,287.3 million for the comparable period in 2013. Within BSI, there was a slight increase in revenue in the Bruker BioSpin Group, driven by higher sales within the Pre-Clinical Imaging division across all of its product lines. Revenue within the Magnetic Resonance division was relatively consistent compared to the prior year, as the recognition of a 21 Tesla high-field magnet in the current year was offset by reduced orders of NMR systems from governmental and academic research customers and increased competition from Japanese based companies resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen.

The Bruker CALID Group had a slight decrease in revenue from declines in the CAM division, in part due to the divestiture and restructuring actions implemented during the third quarter of 2014, and in the Detection division due to delays in obtaining export licenses related to certain orders. These declines were partially offset by increased sales of mass spectrometry products by the LSC division, including the MALDI Biotyper and ESI-TOF. The Bruker Optics division also experienced increases in revenue across a number of its product lines.



## Edgar Filing: BRUKER CORP - Form 10-Q

Revenue within the Bruker MAT Group also had a slight decrease compared to the same period in the prior year. The principal drivers of this decline were: continued weakness in end market demand for our semiconductor, data storage and microelectronics products; the pricing advantage our Japanese based competitors have resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen; and in our AXS division, reduced demand from customers in Russia as a result of the geopolitical uncertainty in the region. These declines were partially offset by revenue generated from the recently

Table of Contents

acquired line of fluorescence microscopy products.

Revenue in the BEST segment increased due to higher sales of cavity devices and low temperature superconducting wire. In addition, BEST revenue during 2013 benefited from license revenue recognized on the sale of technology.

Included in revenue was an increase of approximately \$8.7 million from the impact of changes in foreign exchange rates, primarily due to a weakening of the U.S. Dollar versus the Euro, partially offset by the strengthening of the U.S. Dollar versus the Japanese Yen and other currencies, and an increase of approximately \$10.0 million attributable to recent acquisitions less the impact of divestitures. Excluding the effect of changes in foreign exchange rates and our recent acquisitions and divestitures, revenue decreased by \$5.1 million, or 0.4%.

***Gross Profit***

Gross profit for the nine months ended September 30, 2014 was \$547.5 million, or 42.1 % of revenue, compared to \$569.3 million, or 44.2% of revenue, for the nine months ended September 30, 2013. Included in gross profit were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, and restructuring costs totaling \$37.0 million and \$14.9 million for the nine months ended September 30, 2014 and 2013, respectively. Excluding these charges, our gross profit margin for the nine months ended September 30, 2014 and 2013 was 44.9% and 45.4%, respectively. The lower gross profit margin was mainly attributable to the negative effect of foreign exchange rates, including the impact of the strengthening of the U.S. Dollar versus the Japanese Yen, as our Yen denominated revenues substantially exceeded our Yen denominated expenses. In addition, the prior year included license revenue for the sale of technology in the BEST segment that had no cost of revenue. These effects were partially offset by an increase due to changes in the mix of products sold during 2014, including a 21 Tesla high-field magnet that benefited from higher gross margins.

***Selling, General and Administrative***

Our selling, general and administrative expenses for the nine months ended September 30, 2014 increased to \$332.5 million, or 25.6% of total revenue, from \$319.6 million, or 24.8% of total revenue, for the comparable period in 2013. The increase in selling, general and administrative expenses in dollars was primarily attributable to: increased sales and marketing spending, particularly in our LSC division for our MALDI Biotyper product and for industry trade expositions; the hiring of new senior management; general and administrative spending related to certain investments, including financial reporting system improvements and strategic advisory services; higher allowance for doubtful accounts associated with certain distributor arrangements in Asia; and expenses relating to recent acquisitions. In addition, there was a negative effect due to changes in foreign exchange rates.

***Research and Development***

Our research and development expenses for the nine months ended September 30, 2014 decreased to \$132.6 million, or 10.2% of total revenue, from \$141.4 million, or 11.0% of total revenue, for the comparable period in 2013. The decrease in research and development expenses was attributable to our efforts to improve the efficiency of our product development process, partially offset by the negative effect of changes in

foreign exchange rates.

***Other Charges***

Other charges were \$21.5 million and \$21.1 million for the nine months ended September 30, 2014 and 2013, respectively.

The charges recorded for the nine months ended September 30, 2014 relate to the BSI segment. The charges consisted of \$3.1 million of legal and other professional service fees associated with our internal investigation and review of our operations in China, \$2.1 million of acquisition-related costs, \$7.0 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$6.9 million of long-lived asset impairment costs within the CAM division and \$2.4 million of costs associated with the initial stages of a global IT transformation initiative.

The charges recorded for the nine months ended September 30, 2013 relate mainly to the BSI segment. The charges consisted of \$13.6 million of restructuring costs related to closing facilities and implementing outsourcing initiatives in various divisions, \$1.6 million of acquisition-related costs, \$5.3 million of legal and other professional service fees associated with our internal investigation and review of our operations in China and \$0.6 million of costs related to factory relocations within the BEST segment.

Table of Contents

***Operating Income***

Income from operations for the nine months ended September 30, 2014 was \$60.9 million, resulting in an operating margin of 4.7%, compared to income from operations of \$87.2 million, resulting in an operating margin of 6.8% for the nine months ended September 30, 2013. Income from operations included restructuring costs of \$29.3 million and \$13.6 million during the nine months ended September 30, 2014 and 2013, respectively, related to closing facilities and implementing outsourcing and other restructuring initiatives, including the Plan to divest certain assets and implement a restructuring program in the CAM division within the Bruker CALID Group discussed previously. During the third quarter of 2014, restructuring costs related to the Plan were \$13.1 million. In addition, in September 2014 as part of the Plan, the Company divested certain assets of the ICP-MS product line. The gain on sale of the ICP-MS product line of \$8.7 million has been recorded as part of Interest and Other Income (Expense), net. A divestiture of certain assets within the CAM division was completed in October 2014.

Income from operations also included \$30.5 million and \$23.4 million for the three months ended September 30, 2014 and 2013, respectively, for various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, legal and other professional service fees related to our internal investigation and review of our operations in China, impairment of long-lived assets and costs associated with a global information technology transformation initiative. Included in these charges for the third quarter of 2014 was an asset impairment charge of \$6.9 million associated with the Plan. Excluding the above charges, operating margins were 9.3% and 9.6% for the nine months ended September 30, 2014 and 2013, respectively.

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net during the nine months ended September 30, 2014 was an expense of \$(3.1) million, versus an expense of \$(16.4) million for the comparable period of 2013.

During the nine months ended September 30, 2014, the major components within interest and other income (expense), net were net interest expense of \$9.3 million and a settlement accrual related to the ongoing review of our operations in China of \$2.4 million, partially offset by gains on the sale of product lines of \$9.0 million driven by the divestiture of the ICP-MS product line noted above. During the nine months ended September 30, 2013, the major components within interest and other income (expense), net were net interest expense of \$9.4 million, realized and unrealized losses on foreign currency denominated transactions of \$6.8 million and other expenses of \$1.1 million, partially offset by a \$0.9 million gain on the sale of a product line.

***Income Tax Provision***

The 2014 and 2013 effective tax rates were calculated using our projected annual pre-tax income or loss. The effects of tax credits, the expected level of other tax benefits, and the impact of changes to the valuation allowance, as well as changes in the mix of our pre-tax income and losses among jurisdictions with varying statutory tax rates and credits, were also considered in the calculation.

## Edgar Filing: BRUKER CORP - Form 10-Q

The income tax provision for the nine months ended September 30, 2014 was \$24.7 million compared to \$24.9 million for the nine months ended September 30, 2013, representing effective tax rates of 42.7% and 35.2%, respectively. The increase in our effective tax rate was primarily due to expected unbenefited losses associated with the planned actions at our CAM division. That impact was offset slightly by changes in the expected mix of earnings among tax jurisdictions.

### *Net Income Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests for the nine months ended September 30, 2014 was \$2.5 million compared to \$1.0 million for the comparable period of 2013. The net income attributable to noncontrolling interests represented the minority shareholders' proportionate share of the net income recorded by our majority-owned indirect subsidiaries.

### *Net Income Attributable to Bruker Corporation*

Our net income for the nine months ended September 30, 2014 was \$30.6 million, or \$0.18 per diluted share, compared to \$44.9 million, or \$0.27 per diluted share, for the comparable period in 2013. The decrease was primarily due to lower gross margin levels and a higher effective tax rate, partially offset by gains on the sale of product lines in 2014.

Table of Contents**Segment Results****Revenue**

The following table presents revenue, change in revenue and revenue growth by reportable segment (dollars in millions):

	Nine Months Ended September 30,				Percentage
	2014	2013	Dollar Change		Change
BSI	\$ 1,198.8	\$ 1,198.5	\$ 0.3		0.0%
BEST	116.2	100.8	15.4		15.3%
Eliminations (a)	(14.1)	(12.0)	(2.1)		
	\$ 1,300.9	\$ 1,287.3	\$ 13.6		1.1%

---

(a) Represents product and service revenue between reportable segments.

**BSI Segment Revenues**

For the nine months ended September 30, 2014, BSI segment revenue increased by \$0.3 million to \$1,198.8 million, compared to \$1,198.5 million for the comparable period in 2013. The Bruker BioSpin Group experienced a small increase in revenue, driven by higher sales within the Pre-Clinical Imaging division across all of its product lines. Revenue within the Magnetic Resonance division was relatively consistent compared to the prior year, as the recognition of a 21 Tesla high-field magnet in the current year was offset by reduced orders of NMR systems in governmental and academic research customers and increased competition from Japanese companies resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen.

The Bruker CALID Group had a small decrease in revenue from declines in the CAM division, in part due to the divestiture and restructuring actions implemented during the third quarter of 2014, and in the Detection division due to delays in obtaining export licenses related to certain orders. These declines were partially offset by increased sales of mass spectrometry products by the LSC division, including the MALDI Biotyper and ESI-TOF, and the Bruker Optics division experiencing increases in revenue across a number of its product lines.

Revenue within the Bruker MAT Group also had a small decrease compared to the prior year. The principal drivers of this decline were: continued weakness in end market demand for our semiconductor, data storage and microelectronics products; the pricing advantage our Japanese based competitors have resulting from the strengthening of the U.S. Dollar and Euro against the Japanese Yen; and in our AXS division, reduced demand from customers in Russia as a result of the geopolitical uncertainty in the region. These declines were partially offset by revenue generated from the recently acquired line of fluorescence microscopy products.

## Edgar Filing: BRUKER CORP - Form 10-Q

Included in this change in revenue is an increase of approximately \$5.8 million from the impact of changes in foreign exchange rates, primarily due to the weakening of the U.S. Dollar versus the Euro, partially offset by the strengthening of the U.S. Dollar versus the Japanese Yen and other currencies, and an increase of approximately \$10.0 million attributable to recent acquisitions and a divestiture. Excluding the effect of changes in foreign exchange rates and the recent acquisitions and divestiture, revenue decreased by \$15.5 million, or 1.3%.

System revenue and aftermarket revenue as a percentage of total BSI segment revenue were as follows (dollars in millions):

# Edgar Filing: BRUKER CORP - Form 10-Q

## Table of Contents

	Nine Months Ended September 30,			
	2014		2013	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue
System revenue	\$ 941.3	78.5%	\$ 965.2	80.5%
Aftermarket revenue	257.5	21.5%	233.3	19.5%
Total revenue	\$ 1,198.8	100.0%	\$ 1,198.5	100.0%

System revenue in the BSI segment includes nuclear magnetic resonance systems, magnetic resonance imaging systems, electron paramagnetic imaging systems, mass spectrometry systems, gas chromatography systems, CBRNE detection systems, X-ray systems, spark-optical emission spectroscopy systems, atomic force microscopy systems, stylus and optical metrology systems and molecular spectroscopy systems. Aftermarket revenues in the BSI segment include accessory sales, consumables, training and services.

## ***BEST Segment Revenues***

BEST segment revenue increased by \$15.4 million, or 15.3%, to \$116.2 million for the nine months ended September 30, 2014, compared to \$100.8 million for the comparable period in 2013. The increase in revenue was primarily attributable to higher sales of cavity devices and low temperature superconducting wire. In addition, revenue in 2013 benefited from license revenue recognized on the sale of technology.

System and wire revenue and aftermarket revenue as a percentage of total BEST segment revenue were as follows (dollars in millions):

	Nine Months Ended September 30,			
	2014		2013	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue
System and wire revenue	\$ 113.2	97.4%	\$ 91.5	90.8%
Aftermarket revenue	3.0	2.6%	9.3	9.2%
Total revenue	\$ 116.2	100.0%	\$ 100.8	100.0%

System and wire revenue in the BEST segment includes low and high temperature superconducting wire and superconducting devices, including magnets, linear accelerators and radio frequency cavities. Aftermarket revenues in the BEST segment consist primarily of license revenue and sales of Cuponal, a bimetallic, non-superconducting material we sell to the power and transport industries.

## ***Gross Profit and Operating Expenses***

For the nine months ended September 30, 2014, the gross profit margin in the BSI segment decreased to 43.4% from 45.8% for the comparable period in 2013. Lower gross profit margins resulted primarily from restructuring charges recorded during the nine months ended September 30, 2014 related to closing facilities and implementing outsourcing and other restructuring initiatives, and the negative effect of foreign exchange



## Edgar Filing: BRUKER CORP - Form 10-Q

rates, including the impact of the strengthening of the U.S. Dollar versus the Japanese Yen. These declines were partially offset by an increase due to changes in the mix of products sold, including a 21 Tesla high-field magnet that benefited from higher gross margins. The BEST segment gross profit margin decreased to 22.0% from 23.6% for the comparable period in 2013. Lower gross margins resulted primarily from license revenue recognized in 2013 on the sale of technology, which had no cost of revenue.

In the nine months ended September 30, 2014, selling, general and administrative expenses and research and development expenses in the BSI segment were \$450.5 million, or 37.6% of segment revenue, compared to \$446.1 million, or 37.2% of segment revenue, for the nine months ended September 30, 2013. The increase reflects: higher sales and marketing spending, particularly in our LSC division for our MALDI Biotyper product and industry trade expositions; the hiring of new senior

Table of Contents

management; general and administrative spending related to certain investments, including financial reporting system improvement and strategic advisory services; higher allowance for doubtful accounts associated with certain distributor arrangements in Asia; and expenses due to recent acquisitions. In addition, there was a negative effect due to changes in foreign exchange rates. These increases were partially offset by research and development expense reductions attributable to our efforts to improve the efficiency of our product development process. Selling, general and administrative expenses and research and development expenses in the BEST segment remained relatively consistent at \$14.6 million, or 12.6% of segment revenue for the nine months ended September 30, 2014, compared to \$14.9 million, or 14.8% of segment revenue for the comparable period in 2013.

***Income from Operations***

The following table presents income from operations and operating margins on revenue by reportable segment (dollars in millions):

	2014		Nine Months Ended September 30,		2013	
	Operating	Percentage of	Operating		Percentage of	
	Income (Loss)	Segment	Income (Loss)		Segment	
		Revenue			Revenue	
BSI	\$ 48.5	4.0%	\$ 84.0		7.0%	
BEST	11.1	9.6%	6.7		6.6%	
Corporate, eliminations and other (a)	1.3		(3.5)			
Total operating income	\$ 60.9	4.7%	\$ 87.2		6.8%	

(a) Represents corporate costs and eliminations not allocated to the reportable segments.

BSI income from operations for the nine months ended September 30, 2014 was \$48.5 million, resulting in an operating margin of 4.0%, compared to income from operations of \$84.0 million, resulting in an operating margin of 7.0% for the comparable period in 2013. Income from operations included \$59.6 million and \$34.5 million for the nine months ended 2014 and 2013, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, legal and other professional service fees related to our internal investigation and review of our operations in China, restructuring and relocation costs and costs associated with a global IT transformation initiative. Excluding these costs, income from operations in the BSI reporting segment would have been \$108.1 million and \$118.5 million, or operating margins of 9.0% and 9.9%, for the nine months ended September 30, 2014 and 2013, respectively. Income from operations, excluding these costs, decreased as a result of the negative effect of changes in foreign exchange rates, including the impact the strengthening of the U.S. Dollar versus the Japanese Yen as our Yen denominated revenues substantially exceeded our Yen denominated expenses, and an increase in selling, general and administrative expenses. These increases were partially offset by a decrease in research and development expenses.

BEST income from operations for the nine months ended September 30, 2014 was \$11.1 million, resulting in an operating margin of 9.6%, compared to \$6.7 million, resulting in an operating margin of 6.6%, for the comparable period in 2013. The increase in operating margin was the result of higher overall revenue levels and relatively consistent levels of selling, general and administrative expenses and research and development expenses, partially offset by license revenue recognized in 2013 on the sale of technology, which had no cost of revenue.

**LIQUIDITY AND CAPITAL RESOURCES**

We anticipate that our existing cash and credit facilities will be sufficient to support our operating and investing needs for at least the next twelve months. Our future cash requirements could be affected by acquisitions that we may make in the future. Historically, we have financed our growth through cash flow generation and a combination of debt financings and issuances of common stock. In the future, there are no assurances that additional financing alternatives will be available to us if required, or, if available, will be obtained on terms favorable to us.

During the nine months ended September 30, 2014, net cash provided by operating activities was \$45.0 million, resulting from consolidated net income adjusted for non-cash items of \$112.5 million, partially offset by an increase in working capital of \$67.5 million. The increase in working capital for the nine months ended September 30, 2014 is primarily due to an increase

Table of Contents

in inventory needed to fulfill shipments in the fourth quarter of 2014 and long lead time items. Customer advances also decreased because of the difference in the timing between receipt of customer acceptances, such as obtaining acceptance during the year on a 21 Tesla high-field magnet in the Bruker BioSpin Group and completion of certain orders in the BEST segment which had larger customer advances, and advance payments on new orders received. Income tax payments made during the year also contributed to the increase in working capital. These uses of cash were partially offset by cash generated through an increase in accounts payable and a decrease in accounts receivable. Improved vendor payment practices were the primary driver of the accounts payable increase. The decrease in accounts receivable balances was predominantly the result of lower third quarter revenue levels and improvements in collections and customer credit management practices. During the nine months ended September 30, 2013, net cash provided by operating activities was \$13.6 million, resulting primarily from consolidated net income adjusted for non-cash items of \$112.3 million, partially offset by an increase in working capital of \$98.7 million. The increase in working capital for the nine months ended September 30, 2013 was driven by increased inventory and accounts receivable levels, as well as a decrease in customer advances.

During the nine months ended September 30, 2014, net cash used in investing activities was \$135.7 million, compared to net cash used in investing activities of \$51.6 million during the nine months ended September 30, 2013. Cash used in investing activities during the nine months ended September 30, 2014 was primarily attributable to purchases of short-term investments of \$120.8 million and capital expenditures, net, of \$23.8 million, partially offset by proceeds from the sale of product lines of \$12.8 million. Cash used in investing activities during the nine months ended September 30, 2013 was primarily attributable to \$40.5 million of capital expenditures, net and \$11.6 million used for acquisitions.

During the nine months ended September 30, 2014, net cash provided by financing activities was \$6.2 million, compared to net cash provided by financing activities of \$24.8 million during the nine months ended September 30, 2013. Cash provided by financing activities during the nine months ended September 30, 2014 was primarily attributable to \$7.3 million of proceeds from the issuance of common stock in connection with stock option exercises, offset, in part, by repayment of debt of \$0.7 million. Cash provided by financing activities during the nine months ended September 30, 2013 was attributable to \$19.5 million of proceeds from our revolving line of credit and \$8.0 million of proceeds from the issuance of common stock in connection with stock option exercises, offset, in part, by an increase in restricted cash of \$1.3 million and repayment of debt of \$0.8 million.

At September 30, 2014 and December 31, 2013, we had \$415.8 million and \$419.8 million, respectively, of foreign cash, cash equivalents and short-term investments, most significantly in the Netherlands, Switzerland, Germany and Japan, compared to a total amount of cash, cash equivalents and short-term investments at September 30, 2014 and December 31, 2013 of \$442.3 million and \$438.7 million, respectively. If the cash, cash equivalents and short-term investments held by our foreign subsidiaries are needed to fund operations in the U.S., or we otherwise elect to repatriate the unremitted earnings of our foreign subsidiaries in the form of dividends or otherwise, or if the shares of the subsidiaries were sold or transferred, we would likely be subject to additional U.S. income taxes, net of the impact of any available tax credits, which could result in a higher effective tax rate in the future. It is our intent to indefinitely reinvest unremitted earnings in our foreign subsidiaries as based on our current plans and anticipated cash needs to fund our U.S. operations, we do not foresee a need to repatriate earnings of our foreign subsidiaries.

At September 30, 2014, we had outstanding debt totaling \$355.2 million, consisting of \$240.0 million outstanding under the Note Purchase Agreement, \$112.5 million outstanding under the revolving loan component of the Amended Credit Agreement and \$2.7 million under capital lease obligations and other loans. At December 31, 2013, we had outstanding debt totaling \$355.0 million, consisting of \$240.0 million outstanding under the Note Purchase Agreement, \$112.5 million outstanding under the revolving loan component of the Amended Credit Agreement and \$2.5 million under capital lease obligations and other loans.

In May 2011, we entered into an amendment to, and restatement of, a credit agreement originally entered into in 2008, referred to as the Amended Credit Agreement. The Amended Credit Agreement provides for a revolving credit line with a maximum commitment of \$250.0

## Edgar Filing: BRUKER CORP - Form 10-Q

million with a maturity date of May 2016. Borrowings under the revolving credit line of the Amended Credit Agreement accrue interest, at our option at either (a) the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) adjusted LIBOR plus 1.00% or (b) LIBOR, plus margins ranging from 0.80% to 1.65%. There is also a facility fee ranging from 0.20% to 0.35%.

Borrowings under the Amended Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the Amended Credit Agreement, and Bruker Energy & Supercon Technologies, Inc. The Amended Credit Agreement also requires that we maintain certain financial ratios related to maximum leverage and minimum interest coverage, as defined in the Amended Credit Agreement. Specifically, our leverage ratio cannot exceed 3.0 and our interest coverage ratio cannot be less than 3.0. In addition to the financial ratios, the Amended Credit Agreement restricts, among other things, our ability to do

Table of Contents

the following: make certain payments; incur additional debt; incur certain liens; make certain investments, including derivative agreements; merge, consolidate, sell or transfer all or substantially all of our assets; and enter into certain transactions with affiliates. Our failure to comply with any of these restrictions or covenants may result in an event of default under the applicable debt instrument, which could permit acceleration of the debt under that instrument and require us to prepay that debt before its scheduled due date.

The following is a summary of the maximum commitments and net amounts available to the Company under revolving loans and lines of credit as of September 30, 2014 (dollars in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Letters of Credit	Total Amount Available
Amended Credit Agreement	1.3%	\$ 250.0	\$ 112.5	\$ 7.4	\$ 130.1
Other revolving loans		260.3		138.3	122.0
Total revolving loans		\$ 510.3	\$ 112.5	\$ 145.7	\$ 252.1

Other revolving lines of credit are with various financial institutions located primarily in Germany and Switzerland. The Company's other revolving lines of credit, both secured and unsecured, are typically due upon demand with interest payable monthly.

In January 2012, we entered into a note purchase agreement (the "Note Purchase Agreement") with a group of accredited institutional investors. Pursuant to the Note Purchase Agreement, we issued and sold \$240.0 million of senior notes, referred to as the Senior Notes, which consist of the following:

- \$20.0 million 3.16% Series 2012A Senior Notes, Tranche A, due January 18, 2017;
- \$15.0 million 3.74% Series 2012A Senior Notes, Tranche B, due January 18, 2019;
- \$105.0 million 4.31% Series 2012A Senior Notes, Tranche C, due January 18, 2022; and
- \$100.0 million 4.46% Series 2012A Senior Notes, Tranche D, due January 18, 2024.

As of September 30, 2014, we were in compliance with the covenants of the Amended Credit Agreement and the Note Purchase Agreement as our leverage ratio was 1.3 and our interest coverage ratio was 13.2.

## Edgar Filing: BRUKER CORP - Form 10-Q

As of September 30, 2014, we have approximately \$49.8 million of German Trade Tax net operating losses that are carried forward indefinitely and U.S. research and development tax credits of approximately \$11.6 million available to offset future tax liabilities that expire through 2033. These U.S. tax credit carryforwards are subject to limitations under provisions of the Internal Revenue Code.

### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under ASC Topic 605. The new guidance was the result of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop common revenue standards for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. We are currently assessing the impact of adoption of the new guidance may have on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, an amendment to ASC Topic 205. Under the amendment, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift

## Table of Contents

that has, or will have, a major effect on an entity's operations and financial results. The amendment also requires additional disclosures about discontinued operations as well as individually significant components of an entity that do not qualify for discontinued operations presentation in the financial statements. ASU No. 2014-08 is effective on a prospective basis for fiscal years beginning after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015, with early adoption permitted. We adopted this amendment in the second quarter of 2014 and have incorporated the guidance within our financial statements and related footnote disclosures. The adoption did not have a material impact on our condensed consolidated financial statements for the three or nine months ended September 30, 2014.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes*, an amendment to ASC Topic 740 related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Under this amendment, an unrecognized tax benefit is to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. ASU No. 2013-11 is effective for fiscal years beginning after December 15, 2013. We adopted this amendment in the first quarter of 2014. The adoption did not have a material impact on our condensed consolidated financial statements for the three or nine months ended September 30, 2014.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are potentially exposed to market risks associated with changes in foreign exchange rates, interest rates and commodity prices. We selectively use financial instruments to reduce these risks. All transactions related to risk management techniques are authorized and executed pursuant to our policies and procedures. Analytical techniques used to manage and monitor foreign exchange and interest rate risk include market valuations and sensitivity analysis.

#### ***Impact of Foreign Currencies***

We generate a substantial portion of our revenues in international markets, principally Germany and other countries in the European Union, Switzerland and Japan, which exposes our operations to the risk of exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. Our costs related to sales in foreign currencies are largely denominated in the same respective currencies, limiting our transaction risk exposure. However, for foreign currency denominated sales in certain regions, such as Japan, where we do not incur significant costs denominated in that foreign currency, we are more exposed to the impact of foreign currency fluctuations. For sales not denominated in U.S. Dollars, if there is an increase in the rate at which a foreign currency is exchanged for U.S. Dollars, it will require more of the foreign currency to equal a specified amount of U.S. Dollars than before the rate increase. In such cases, if we price our products in the foreign currency, we will receive less in U.S. Dollars than we would have received before the rate increase went into effect. If we price our products in U.S. Dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. Dollar could result in our prices not being competitive in a market where business is transacted in the local currency. Changes in foreign currency exchange rates increased our revenue by approximately 0.7% for the nine months ended September 30, 2014 and decreased our revenue for the nine months ended September 30, 2013 by approximately 0.6%.

Assets and liabilities of our foreign subsidiaries, where the functional currency is the local currency, are translated into U.S. dollars using period-end exchange rates. Revenues and expenses of foreign subsidiaries are translated at the average exchange rates in effect during the year. Adjustments resulting from financial statement translations are included as a separate component of shareholders' equity. For the nine months ended September 30, 2014 and 2013, we recorded net losses from currency translation adjustments of \$85.1 million and \$12.3 million, respectively. Gains and losses resulting from foreign currency transactions are reported in interest and other income (expense), net in the consolidated statements of income and comprehensive income. Our foreign exchange losses, net were \$1.1 million and \$6.8 million for nine



## Edgar Filing: BRUKER CORP - Form 10-Q

months ended September 30, 2014 and 2013, respectively.

From time to time, we have entered into foreign currency contracts in order to minimize the volatility that fluctuations in exchange rates have on our cash flows related to purchases and sales denominated in foreign currencies. Under these arrangements, we agree to purchase a fixed amount of a foreign currency in exchange for a fixed amount of U.S. Dollars or other currencies on specified dates typically with maturities of less than twelve months. These transactions are recorded at fair value with the corresponding gains and losses recorded in interest and other income (expense), net in the consolidated statements of income and comprehensive income. At September 30, 2014 and December 31, 2013, we had foreign currency contracts with notional amounts aggregating \$107.5 million and \$95.9 million, respectively. We will continue to evaluate our currency risks and in the future may utilize foreign currency contracts more frequently as part of a transactional hedging

Table of Contents

program.

***Impact of Interest Rates***

We regularly invest excess cash in short-term investments that are subject to changes in interest rates. We believe that the market risk arising from holding these financial instruments is minimal because of our policy of investing in short-term financial instruments issued by highly rated financial institutions.

Our exposure related to adverse movements in interest rates is derived primarily from outstanding floating rate debt instruments that are indexed to short-term market rates. We currently have a higher level of fixed rate debt, which limits our exposure to adverse movements in interest rates.

***Impact of Commodity Prices***

We are exposed to certain commodity risks associated with prices for various raw materials. The prices of copper and certain other raw materials, particularly niobium tin, used to manufacture superconductors have increased significantly over the last decade. Copper and niobium tin are the main components of low temperature superconductors and continued commodity price increases for copper and niobium as well as other raw materials may negatively affect our profitability. Periodically, we enter into commodity forward purchase contracts to minimize the volatility that fluctuations in the price of copper have on our sales of these products. At September 30, 2014 and December 31, 2013, we had fixed price commodity contracts with notional amounts aggregating \$3.6 million and \$3.4 million, respectively. We will continue to evaluate our commodity risks and may utilize commodity forward purchase contracts more frequently in the future.

***Inflation***

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

**ITEM 4. CONTROLS AND PROCEDURES**

We have established disclosure controls and procedures that are designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) by others within our organization. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2014. Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the

SEC's rules and forms.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

## **PART II**                      **OTHER INFORMATION**

### **ITEM 1.**                      **LEGAL PROCEEDINGS**

Please see Part I, Item 1, Financial Information- Note 10. Commitments and Contingencies- Legal which is incorporated by reference into this item. Additional information about our legal proceedings can be found in Part I, Item 3, Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2013.

### **ITEM 1A.**                      **RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on

Table of Contents

Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, except as noted below.

*It may be difficult for us to implement our strategies for improving margins, profitability and cash flow.*

Beginning in the fourth quarter of 2012, and continuing in 2013 and 2014, we have been pursuing a number of strategies to improve our financial performance, including implementing various productivity improvement initiatives at both BSI and BEST in an effort to better optimize our operations. These initiatives include the divestiture of certain non-core businesses, outsourcing of various manufacturing activities and transferring or ceasing operations at certain facilities. In addition, in the third quarter of 2014 we implemented a targeted plan to divest certain product lines and implement a restructuring program in the CAM division of the Bruker CALID Group in order to improve our operating performance and, during September and October 2014, we divested certain assets related to product lines within the CAM division. These divestment and restructuring actions are expected to result in a reduction of employee headcount by approximately 200 people and to lead to CAM-related restructuring and other one-time charges totaling approximately \$25 to \$30 million in the second half of 2014 and the first half of 2015, of which we recorded \$20.0 million of costs in the third quarter of 2014.

We may not be able to successfully implement these strategies, and these efforts may not result in the expected improvement in our margins, profitability or cash flow. Anticipated benefits to our operating and financial performance might be reduced or delayed as a result of difficulties in implementing these initiatives, which may include complications in the transfer of assets and production knowledge, loss of key employees and/or customers, the disruption of ongoing business and possible inconsistencies in standards, controls and procedures. Implementation costs also might exceed our expectations and further cost reduction measures might become necessary, resulting in additional future charges. These restructuring actions may also have unintended consequences, such as attrition beyond our intended reduction in workforce, reduced employee morale and loss of customer relationships. We also may undertake additional restructuring activities in the future. Because of these and other factors, we cannot predict whether we will realize the purpose and anticipated benefits of our restructuring and related measures, and if we do not, our business and results of operations may be adversely affected.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(2)
101	The following materials from the Bruker Corporation Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed

Table of Contents

Consolidated Statements of Income and Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) Notes to the Condensed Consolidated Financial Statements(2)

---

(1) Filed herewith.

(2) Furnished herewith.

Table of Contents

**SIGNATURES**

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

**BRUKER CORPORATION**

Date: November 7, 2014

By: /s/ FRANK H. LAUKIEN, PH.D.  
Frank H. Laukien, Ph.D.  
*President, Chief Executive Officer and Chairman*  
*(Principal Executive Officer)*

Date: November 7, 2014

By: /s/ CHARLES F. WAGNER, JR.  
Charles F. Wagner, Jr.  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*