

BROOKS AUTOMATION INC
Form 10-Q
May 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2013
OR

☐ 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 0-25434

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

Delaware
(State or other jurisdiction of
incorporation or organization)
15 Elizabeth Drive
Chelmsford, Massachusetts
(Address of principal executive offices)

04-3040660
(I.R.S. Employer
Identification No.)

01824
(Zip Code)

Registrant's telephone number, including area code: (978) 262-2400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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):

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Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, April 26, 2013: common stock, \$0.01 par value and 66,490,810 shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

BROOKS AUTOMATION, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except share and per share data)

	March 31, 2013	September 30, 2012
Assets		
Current assets		
Cash and cash equivalents	\$60,121	\$ 54,639
Restricted cash	—	763
Marketable securities	46,242	85,646
Accounts receivable, net	73,545	78,855
Inventories	96,601	102,985
Deferred tax assets	18,460	15,531
Prepaid expenses and other current assets	11,773	9,070
Total current assets	306,742	347,489
Property, plant and equipment, net	58,874	64,478
Long-term marketable securities	39,211	59,946
Long-term deferred tax assets	99,551	104,626
Goodwill	114,893	88,440
Intangible assets, net	64,576	39,400
Equity investment in joint ventures	28,425	31,428
Other assets	9,490	6,153
Total assets	\$721,762	\$ 741,960
Liabilities and equity		
Current liabilities		
Accounts payable	\$28,658	\$ 28,988
Deferred revenue	13,613	9,986
Accrued warranty and retrofit costs	7,725	7,329
Accrued compensation and benefits	12,409	14,118
Accrued restructuring costs	2,580	2,098
Accrued income taxes payable	390	1,699
Accrued expenses and other current liabilities	16,138	16,973
Total current liabilities	81,513	81,191
Income taxes payable	7,945	6,356
Long-term pension liability	1,411	1,688
Other long-term liabilities	3,618	3,424
Total liabilities	94,487	92,659
Contingencies (Note 17)		
Equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 125,000,000 shares authorized, 79,952,679 shares issued and 66,490,810 shares outstanding at March 31, 2013, 79,790,557 shares issued and 66,328,688 shares outstanding at September 30, 2012	799	798
Additional paid-in capital	1,822,102	1,817,706

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Accumulated other comprehensive income	17,512	23,642
Treasury stock at cost, 13,461,869 shares	(200,956)	(200,956)
Accumulated deficit	(1,012,861)	(992,524)
Total Brooks Automation, Inc. stockholders' equity	626,596	648,666
Noncontrolling interest in subsidiaries	679	635
Total equity	627,275	649,301
Total liabilities and equity	\$721,762	\$ 741,960

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

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BROOKS AUTOMATION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(In thousands, except per share data)

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Revenues				
Product	\$95,493	\$117,621	\$172,816	\$214,719
Services	21,126	21,716	41,828	44,846
Total revenues	116,619	139,337	214,644	259,565
Cost of revenues				
Product	64,154	75,443	118,635	139,732
Services	15,853	15,612	30,239	31,194
Total cost of revenues	80,007	91,055	148,874	170,926
Gross profit	36,612	48,282	65,770	88,639
Operating expenses				
Research and development	12,030	12,529	23,548	24,478
Selling, general and administrative	24,785	24,270	50,732	51,012
Restructuring and other charges	769	42	5,526	245
In-process research and development	—	3,026	—	3,026
Total operating expenses	37,584	39,867	79,806	78,761
Operating income (loss)	(972	) 8,415	(14,036	) 9,878
Interest income	265	273	540	552
Interest expense	—	—	(1	) (7
Other income (expense), net	77	(51	) (16	) 295
Income (loss) before income taxes and equity in earnings (losses) of joint ventures	(630	) 8,637	(13,513	) 10,718
Income tax benefit	(129	) (659	) (3,799	) (359
Income (loss) before equity in earnings (losses) of joint ventures	(501	) 9,296	(9,714	) 11,077
Equity in earnings (losses) of joint ventures	(10	) 430	(16	) 1,480
Net income (loss)	\$(511	) \$9,726	(9,730	) 12,557
Net income attributable to noncontrolling interests	(27	) (5	) (44	) (13
Net income (loss) attributable to Brooks Automation, Inc.	\$(538	) \$9,721	(9,774	) 12,544
Basic net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$(0.01	) \$0.15	\$(0.15	) \$0.19
Diluted net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$(0.01	) \$0.15	\$(0.15	) \$0.19
Shares used in computing earnings (loss) per share				
Basic	65,889	65,038	65,726	64,925
Diluted	65,889	65,828	65,726	65,552

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

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BROOKS AUTOMATION, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(In thousands)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Net income (loss)	\$ (511)	\$ 9,726	\$ (9,730)	\$ 12,557
Change in cumulative translation adjustment	(6,908)	188	(6,378)	(2,771)
Unrealized gain (loss) on marketable securities	(23)	253	(152)	346
Actuarial gain (loss)	23	(3)	400	(87)
Comprehensive income (loss)	(7,419)	10,164	(15,860)	10,045
Comprehensive income attributable to noncontrolling interests	(27)	(5)	(44)	(13)
Comprehensive income (loss) attributable to Brooks Automation, Inc.	\$ (7,446)	\$ 10,159	\$ (15,904)	\$ 10,032

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

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BROOKS AUTOMATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(In thousands)

	Six months ended March 31,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ (9,730)	) \$ 12,557
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,443	10,621
Stock-based compensation	5,010	4,924
Amortization of premium on marketable securities	661	1,244
Undistributed (earnings) losses of joint ventures	16	(1,480)
Deferred income tax benefit	(3,387)) —
Pension settlement	87	—
Gain on disposal of long-lived assets	(150)	) (47)
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable	9,489	(2,951)
Inventories	13,734	3,540
Prepaid expenses and other current assets	(4,305)	) (732)
Accounts payable	(3,260)	) 5,894
Deferred revenue	3,711	(3,949)
Accrued warranty and retrofit costs	(1,154)	) (172)
Accrued compensation and benefits	(2,702)	) (5,630)
Accrued restructuring costs	195	(168)
Accrued expenses and other current liabilities	(3,914)	) (1,954)
Net cash provided by operating activities	16,744	21,697
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,578)	) (4,384)
Purchases of marketable securities	(39,269)	) (39,097)
Sale/maturity of marketable securities	98,178	61,970
Acquisition, net of cash acquired	(59,005)	) (8,716)
Proceeds from the sale of property, plant and equipment	2,368	—
Payment of deferred leasing cost	(2,076)) —
Decrease in restricted cash	763	476
Net cash provided by (used in) investing activities	(619)	) 10,249
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs	969	842
Common stock dividend paid	(10,672)	) (10,442)
Net cash used in financing activities	(9,703)	) (9,600)
Effects of exchange rate changes on cash and cash equivalents	(940)	) (24)
Net increase in cash and cash equivalents	5,482	22,322
Cash and cash equivalents, beginning of period	54,639	58,833
Cash and cash equivalents, end of period	\$ 60,121	\$ 81,155

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

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BROOKS AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements of Brooks Automation, Inc. and its subsidiaries ("Brooks" or the "Company") included herein have been prepared in accordance with generally accepted accounting principles, or GAAP. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (the "SEC") for the fiscal year ended September 30, 2012 (the "2012 Annual Report on Form 10-K").

In the third quarter of fiscal 2012, the Company identified prior period errors related to the accounting for its equity method investment in ULVAC Cryogenics, Inc. The Company concluded these errors were not material individually or in the aggregate to any of the prior reporting periods. Revisions for these corrections to the applicable prior periods were disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. Relevant revisions for prior periods presented in this report include the three months ended March 31, 2012, the Company previously reported \$195,000 of equity in earnings of joint ventures but has revised the amount to \$430,000 and for the six months ended March 31, 2012, the Company previously reported \$1,420,000 of equity in earnings of joint ventures but has revised the amount to \$1,480,000.

Recently Enacted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued an amendment to the accounting guidance for presentation of comprehensive income. Under the amended guidance, a company may present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. On October 1, 2012 the Company adopted this guidance and elected to present two separate but consecutive statements.

In February 2013, the FASB issued guidance to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. On January 1, 2013 the Company adopted this standard, which had no impact on its financial position or results of operations.

2. Stock-Based Compensation

The Company may issue stock options and restricted stock, which vest upon the satisfaction of a performance condition and/or a service condition. In addition, the Company issues shares pursuant to an employee stock purchase plan.

The following table reflects stock-based compensation expense recorded during the three and six months ended March 31, 2013 and 2012 (in thousands):

	Three months ended		Six months ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Restricted stock	\$2,382	\$3,030	\$4,766	\$4,625

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Employee stock purchase plan	117	151	244	299
	\$2,499	\$3,181	\$5,010	\$4,924

The fair value per share of restricted stock is equal to the quoted price of the Company's common stock on the date of grant, net of estimated forfeitures. In addition, for stock-based awards where vesting is dependent upon achieving certain

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operating performance goals, the Company estimates the likelihood of achieving the performance goals. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

During the three months ended December 31, 2012 and March 31, 2013, the Company granted 1,183,500 shares and 40,500 shares, respectively, of restricted stock to members of senior management of which 524,250 shares and 22,375 shares, respectively, vest over the service period and the remaining 659,250 shares and 18,125 shares, respectively, vest upon the achievement of certain financial performance goals which will be measured at the end of fiscal year 2013. Total compensation expense on these awards is a maximum of \$13.7 million, net of cancellations. During the three months ended December 31, 2011 and March 31, 2012, the Company granted 1,377,000 shares and 150,000 shares, respectively, of restricted stock to members of senior management of which 369,250 shares and 37,500 shares, respectively, vest over the service period and the remaining 1,007,750 shares and 112,500 shares, respectively, vest upon the achievement of certain financial performance goals which will be measured at the end of fiscal year 2014. Total compensation expense on these awards is a maximum of \$15.6 million, net of cancellations. Awards subject to service criteria are being recorded to expense ratably over the vesting period. Awards subject to performance criteria are expensed over the related service period when attainment of the performance condition is considered probable. The total amount of compensation recorded will depend on the Company's achievement against performance targets. Changes to the projected attainment against performance targets during the vesting period may result in an adjustment to the amount of cumulative compensation recorded as of the date the estimate is revised.

During the three months ended December 31, 2011, the Company's Chief Executive Officer was granted an award of 100,000 cash settled phantom units, which are subject to the same vesting terms as the performance-based restricted stock units granted in the three months ended December 31, 2011. The Company's unaudited consolidated balance sheet at March 31, 2013 and September 30, 2012 includes a liability of approximately \$155,000 and \$78,000, respectively, for this potential cash payment. The Company incurred an expense of \$32,000 and \$58,000 for the three months ended March 31, 2013 and 2012, respectively, in connection with the cash settled phantom unit award. The Company incurred an expense of \$77,000 and \$83,000 for the six months ended March 31, 2013 and 2012, respectively, in connection with the cash settled phantom unit award.

Stock Option Activity

The following table summarizes stock option activity for the six months ended March 31, 2013:

	Number of Options	Weighted- Average Remaining Contractual Term	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)
Outstanding at September 30, 2012	193,182		\$13.11	
Exercised	(8,600)	)	7.75	
Forfeited/expired	(155,990)	)	13.33	
Outstanding at March 31, 2013	28,592	0.8 years	\$13.50	\$7
Vested at March 31, 2013	28,592	0.8 years	\$13.50	\$7
Options exercisable at March 31, 2013	28,592	0.8 years	\$13.50	\$7

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$10.18 as of March 28, 2013, which would have been received by the option holders had all option holders exercised their options as of that date.

No stock options were granted during the three or six months ended March 31, 2013 or 2012. The total intrinsic value of options exercised during the three and six months ended March 31, 2013 was \$19,000. The total intrinsic value of options exercised during the three and six months ended March 31, 2012 was \$56,000. The total cash received from participants as a result of stock option exercises during the three and six months ended March 31, 2013 was \$67,000. The total cash received from participants as a result of stock option exercises during the three and six months ended March 31, 2012 was \$103,000.

As of March 31, 2013 there was no future compensation cost related to stock options as all outstanding stock options have vested.

Restricted Stock Activity

A summary of the status of the Company's restricted stock as of March 31, 2013 and changes during the six months ended March 31, 2013 is as follows:

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	Six months ended March 31, 2013	Weighted Average Grant-Date Fair Value
Shares		
Outstanding at September 30, 2012	2,732,448	\$ 10.47
Awards granted	1,297,439	9.26
Awards vested	(611,138)	9.79
Awards canceled	(281,992)	11.43
Outstanding at March 31, 2013	3,136,757	\$ 10.77

The fair value of restricted stock awards vested during the three months ended March 31, 2013 and 2012 was \$3.1 million and \$3.2 million, respectively. The fair value of restricted stock awards vested during the six months ended March 31, 2013 and 2012 was \$6.0 million and \$3.6 million, respectively.

As of March 31, 2013, the unrecognized compensation cost related to restricted stock that is expected to vest is \$10.4 million and will be recognized over an estimated weighted average amortization period of 1.8 years.

Employee Stock Purchase Plan

A total of 115,751 shares were purchased under the employee stock purchase plan during the three and six months ended March 31, 2013 for aggregate proceeds of \$0.9 million. A total of 90,433 shares were purchased under the employee stock purchase plan during the three and six months ended March 31, 2012 for aggregate proceeds of \$0.7 million.

3. Acquisition

On October 29, 2012, the Company acquired all the outstanding stock of Crossing Automation Inc. ("Crossing"), a U.S. based provider of automation solutions and services primarily to global semiconductor front-end markets. The Company paid, in cash, an aggregate merger consideration of \$59.0 million net of cash acquired. Crossing is based in Fremont, California, and the Company's nearby Santa Clara, California operation has been integrated into the Crossing facility. Crossing resides in the Brooks Product Solutions and the Brooks Global Services segments. The acquisition of Crossing provides the Company with the opportunity to enhance its existing capabilities with respect to manufacturing of atmospheric and vacuum automation solutions within the semiconductor front-end market.

The assets and liabilities associated with Crossing were recorded at their fair values as of the acquisition date and the amounts follow (in thousands):

Accounts receivable	\$5,356	
Inventory	8,668	
Prepaid expenses	610	
Other current assets	1,358	
Property, plant and equipment	2,270	
Completed technology	10,530	
Customer relationships	20,010	
Goodwill	26,453	
Other long term assets	885	
Accounts payable	(3,024)	
Accrued liabilities	(5,172)	
Deferred revenue	(319)	
Other current liabilities	(388)	
Other long-term liabilities	(8,232)	
Total purchase price, net of cash acquired	\$59,005	

In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, analyses of historical financial performance, and estimates of future cash flows from Crossing's

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products and services. The purchase price was allocated based upon the fair value of the identified assets acquired and liabilities assumed as of the acquisition date from a market participant's perspective.

The Company used the relief-from-royalty method to value the completed technology and the excess earnings method to value the customer relationships. Cash flows were discounted at a rate of 15%. The weighted-average amortization periods are 7.7 years for completed technologies and 8.0 years for customer relationships. The intangible assets acquired will be amortized using methods that approximate the pattern in which the economic benefits are expected to be realized, including variable declining balance and straight-line methods.

Goodwill represents the excess of the purchase price over the fair values of the net tangible and intangible assets acquired and is primarily the result of expected synergies. Goodwill arising from the acquisition is not deductible for tax purposes.

The Company completed the final allocation of the purchase price related to Crossing in the second quarter of fiscal 2013. Adjustments made to the purchase price allocation in the second quarter of fiscal 2013 were not material. Crossing's operating results have been included in the results of operations for the Brooks Product Solutions and Brooks Global Services segments from the acquisition date. Revenue from Crossing for the three months ended March 31, 2013 was \$12.2 million, and the net loss was \$0.6 million. Revenue from Crossing for the six months ended March 31, 2013 was \$20.7 million, and the net loss was \$2.5 million. The net loss for the three and six months ended March 31, 2013 includes charges to expense the step-up in value of acquired inventories which increased the net loss by \$0.6 million and \$2.7 million, respectively, and amortization expense of \$1.0 million and \$1.7 million for the three and six months ended March 31, 2013, respectively.

The following pro forma summary presents consolidated information of the Company as if the acquisition of Crossing occurred on October 1, 2011 (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Revenue	\$116,618	\$151,774	\$216,737	\$284,898
Net income (loss) attributable to Brooks Automation, Inc.	(465)	9,150	(10,775)	11,960

The pro forma net income (loss) has been adjusted to reflect additional amortization from adjustments to intangible assets as if those adjustments had been applied as of October 1, 2011.

Transaction costs of \$3.6 million incurred by Crossing prior to the closing of the acquisition have been eliminated from pro forma net loss as presented above. These costs include banker fees of \$1.5 million and one-time incentive compensation payments related to the transaction of \$1.2 million. Transaction costs incurred by the Company related to this acquisition were \$8,000 and \$642,000 for the three and six months ended March 31, 2013, and are included in selling, general and administrative expense.

4. Goodwill and Intangible Assets

Goodwill represents the excess of net book value over the estimated fair value of net tangible and identifiable intangible assets of a reporting unit. The Company performs an annual impairment test of its goodwill on September 30 of each fiscal year unless interim indicators of impairment exist. The Company did not identify any indicators of impairment during the six month period ended March 31, 2013 that would warrant an interim test.

The components of the Company's goodwill by business segment at March 31, 2013 are as follows (in thousands):

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	Brooks Product Solutions	Brooks Global Services	Brooks Life Science Systems	Other	Total
Gross goodwill at September 30, 2012	\$485,844	\$151,238	\$40,302	\$26,014	\$703,398
Less: aggregate impairment charges recorded	(437,706)	(151,238)	—	(26,014)	(614,958)
Goodwill, less accumulated impairments at September 30, 2012	\$48,138	\$—	\$40,302	\$—	\$88,440
Acquisitions and adjustments during the six months ended March 31, 2013	20,899	5,554	—	—	26,453
Goodwill, less accumulated impairments at March 31, 2013	\$69,037	\$5,554	\$40,302	\$—	