

BRUKER CORP
Form 10-Q
August 09, 2018
[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 June 30, 2018

**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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 August 6, 2018
156,320,780 shares

Table of Contents

BRUKER CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2018

Index

	Page
Part I	
FINANCIAL INFORMATION	
<u>Item 1:</u>	1
<u>Unaudited Condensed Consolidated Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	1
<u>Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017</u>	2
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017</u>	3
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	4
<u>Item 2:</u>	26
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3:</u>	42
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4:</u>	43
<u>Controls and Procedures</u>	43
Part II	44
OTHER INFORMATION	44
<u>Item 1:</u>	44
<u>Legal Proceedings</u>	44
<u>Item 1A:</u>	44
<u>Risk Factors</u>	44
<u>Item 2:</u>	44
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3:</u>	45
<u>Defaults Upon Senior Securities</u>	45
<u>Item 4:</u>	45
<u>Mine Safety Disclosure</u>	45
<u>Item 5:</u>	45
<u>Other Information</u>	45
<u>Item 6:</u>	45
<u>Exhibits</u>	45
<u>Signatures</u>	46

[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)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 258.7	\$ 325.0
Short-term investments		114.2
Accounts receivable, net	278.8	319.3
Inventories	509.4	486.2
Other current assets	135.1	114.1
Total current assets	1,182.0	1,358.8
Property, plant and equipment, net	259.2	266.5
Goodwill	192.4	169.8
Intangibles, net and other long-term assets	172.4	153.4
Total assets	\$ 1,806.0	\$ 1,948.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 15.0	\$ 90.8
Accounts payable	104.6	111.7
Customer advances	109.6	322.0
Other current liabilities	302.3	524.5
Total current liabilities	531.5	
Long-term debt	205.6	415.6
Other long-term liabilities	283.6	274.9
Commitments and contingencies (Note 13)		
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, 172,326,156 and 171,875,076 shares issued and 156,305,942 and 155,865,977 shares outstanding at June 30, 2018 and December 31, 2017, respectively	1.7	1.7
Treasury stock, at cost, 16,020,214 and 16,009,099 shares at June 30, 2018 and December 31, 2017, respectively	(401.4)	(401.2)
Accumulated other comprehensive income	14.8	27.0
Other shareholders' equity	1,161.5	1,097.9

Edgar Filing: BRUKER CORP - Form 10-Q

Total shareholders' equity attributable to Bruker Corporation	776.6	725.4
Noncontrolling interest in consolidated subsidiaries	8.7	8.1
Total shareholders' equity	785.3	733.5
Total liabilities and shareholders' equity	\$ 1,806.0	\$ 1,948.5

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Product revenue	\$ 368.1	\$ 345.9	\$ 720.3	\$ 664.8
Service revenue	73.5	67.1	151.2	130.4
Other revenue	2.1	1.9	3.9	4.6
Total revenue	443.7	414.9	875.4	799.8
Cost of product revenue	188.7	191.5	374.3	364.2
Cost of service revenue	49.1	38.7	95.6	74.4
Cost of other revenue	0.7	0.2	0.9	0.3
Total cost of revenue	238.5	230.4	470.8	438.9
Gross profit	205.2	184.5	404.6	360.9
Operating expenses:				
Selling, general and administrative	110.6	102.5	220.9	200.6
Research and development	43.6	40.3	86.8	77.9
Other charges, net	2.2	6.4	10.0	9.5
Total operating expenses	156.4	149.2	317.7	288.0
Operating income	48.8	35.3	86.9	72.9
Interest and other income (expense), net	(5.5)	(5.1)	(7.8)	(11.1)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	43.3	30.2	79.1	61.8
Income tax provision	11.8	6.2	20.2	16.1
Consolidated net income	31.5	24.0	58.9	45.7
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.3	0.6	0.7	0.7
Net income attributable to Bruker Corporation	\$ 31.2	\$ 23.4	\$ 58.2	\$ 45.0
Net income per common share attributable to Bruker Corporation shareholders:				
Basic	\$ 0.20	\$ 0.15	\$ 0.37	\$ 0.28
Diluted	\$ 0.20	\$ 0.15	\$ 0.37	\$ 0.28
Weighted average common shares outstanding:				
Basic	156.1	159.5	156.0	159.6
Diluted	157.0	160.4	157.0	160.4
Comprehensive income (loss)	\$ (5.4)	\$ 71.6	\$ 46.4	\$ 109.1
Less: Comprehensive income (loss) attributable to noncontrolling interests	(0.2)	1.0	0.4	1.2
Comprehensive income (loss) attributable to Bruker Corporation	\$ (5.2)	\$ 70.6	\$ 46.0	\$ 107.9
Dividend declared per common share	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08

The accompanying notes are an integral part of these statements.

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

(in millions)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net income	\$ 58.9	\$ 45.7
Adjustments to reconcile consolidated net income to cash flows from operating activities:		
Depreciation and amortization	32.4	31.1
Stock-based compensation expense	4.9	5.3
Deferred income taxes	(7.4)	(2.2)
Other non-cash expenses, net	24.8	1.8
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	36.6	16.9
Inventories	(44.8)	(36.6)
Accounts payable and accrued expenses	(13.6)	(24.4)
Income taxes payable, net	(15.7)	(7.6)
Deferred revenue	9.7	3.3
Customer advances	(0.3)	(20.6)
Other changes in operating assets and liabilities, net	(5.6)	2.7
Net cash provided by operating activities	79.9	15.4
Cash flows from investing activities:		
Purchases of short-term investments		(118.5)
Maturities of short-term investments	117.0	69.4
Cash paid for acquisitions, net of cash acquired	(37.6)	(58.7)
Purchases of property, plant and equipment	(17.5)	(21.1)
Proceeds from sales of property, plant and equipment	0.1	6.9
Net cash provided by (used in) investing activities	62.0	(122.0)
Cash flows from financing activities:		
Repayments of the Note Purchase Agreement		(20.0)
Repayments of revolving lines of credit	(202.5)	(40.0)
Proceeds from revolving lines of credit	7.5	79.0
Repayment of other debt, net	(0.8)	(0.3)
Proceeds from issuance of common stock, net	7.0	9.2
Payment of contingent consideration	(2.3)	(3.5)
Repurchase of common stock		(41.7)
Payment of dividends	(12.5)	(12.8)
Cash payments to noncontrolling interest		(0.5)
Net cash used in financing activities	(203.6)	(30.6)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4.7)	12.7
Net change in cash, cash equivalents and restricted cash	(66.4)	(124.5)
Cash, cash equivalents and restricted cash at beginning of period	328.9	345.9
Cash, cash equivalents and restricted cash at end of period	\$ 262.5	\$ 221.4

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), develops, manufactures and distributes high-performance scientific instruments and analytical and diagnostic solutions that enable its customers to explore life and materials at microscopic, molecular and cellular levels. Many of the Company's products are used to detect, measure and visualize structural characteristics of chemical, biological and industrial material samples. The Company's products address the rapidly evolving needs of a diverse array of customers in life science research, pharmaceuticals, biotechnology, applied markets, cell biology, clinical research, microbiology, in-vitro diagnostics, nanotechnology and materials science research.

The Company has two reportable segments, *Bruker Scientific Instruments (BSI)*, which represented approximately 90.7% and 90.2% of the Company's revenues during the three and six months ended June 30, 2018, respectively, and 87.4% and 88.6% of the Company's revenues during the three and six months ended June 30, 2017, respectively; and *Bruker Energy & Supercon Technologies (BEST)*, which represented the remainder of the Company's revenues. For financial reporting purposes, the Bruker BioSpin Group, Bruker CALID Group and Bruker Nano Group operating segments are aggregated into the BSI reportable segment because each has similar economic characteristics, production processes, service offerings, types and classes of customers, methods of distribution and regulatory environments.

Bruker BioSpin The Bruker BioSpin Group designs, manufactures and distributes enabling life science tools based on magnetic resonance technology. The majority of the Bruker BioSpin Group's revenues are generated by academic and government research customers. Other customers include pharmaceutical and biotechnology companies and nonprofit laboratories, as well as chemical, food and beverage, clinical and other industrial companies.

Bruker CALID (Chemicals, Applied Markets, Life Science, In-Vitro Diagnostics, Detection) The Bruker CALID Group designs, manufactures and distributes life science mass spectrometry and ion mobility spectrometry solutions, analytical and process analysis instruments and solutions based on infrared and Raman molecular spectroscopy technologies and radiological/nuclear detectors for Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) detection. Customers of the Bruker CALID Group include: academic institutions and medical schools; pharmaceutical, biotechnology and diagnostics companies; contract research organizations; nonprofit or for-profit forensics laboratories; agriculture, food and beverage safety laboratories; environmental and clinical microbiology laboratories; hospitals and government departments and agencies.

Bruker Nano The Bruker Nano Group designs, manufactures and distributes advanced X-ray instruments; atomic force microscopy instrumentation; advanced fluorescence optical microscopy instruments; analytical tools for electron microscopes and X-ray metrology; defect-detection equipment for semiconductor process control; handheld, portable and mobile X-ray fluorescence spectrometry instruments; and spark optical emission spectroscopy systems.

Edgar Filing: BRUKER CORP - Form 10-Q

Customers of the Bruker Nano Group include academic institutions, governmental customers, nanotechnology companies, semiconductor companies, raw material manufacturers, industrial companies, biotechnology and pharmaceutical companies and other businesses involved in materials analysis.

The Company's BEST reportable 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, as well as 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 intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements as of June 30, 2018 and December 31, 2017, and for the three and six months ended June 30, 2018 and 2017, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission

Table of Contents

(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 U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement 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.

At June 30, 2018, 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, 2017, have not changed other than for revenue recognition as detailed in Footnote 2.

2. Revenue

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under Accounting Standards Codification (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 U.S. 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. The new guidance was effective as of January 1, 2018 and was applied on a modified retrospective basis. The Company elected the practical expedient and only evaluated contracts for which substantially all revenue had not been recognized under ASC 605 with the cumulative effect of the new guidance recorded as of the date of initial application. The impact of adoption was an increase to beginning retained earnings of \$8.2 million, offset in part by a \$2.1 million impact related to taxes. As the adoption of this standard did not have a material impact on the Company's unaudited condensed consolidated financial statements, transitional disclosures were not provided.

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. The key elements of ASC 606 are: 1) identifying a contract with the customer; 2) identifying the performance obligations in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognizing revenue when (or as) each performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Some of the Company's contracts have multiple performance obligations, most commonly due to providing additional goods or services along with a system such as installation, accessories, parts and services. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the best estimate of the standalone selling price of each distinct good or service being provided to the customer. The Company's best evidence of standalone selling price is its normal selling pricing and discounting practices for the specific product or service when sold on a standalone basis. Alternatively, when not sold separately, the Company may determine standalone selling price using an expected cost plus a margin approach.

The Company's performance obligations are typically satisfied at a point in time, most commonly either on shipment or customer acceptance. Certain performance obligations, such as maintenance contracts and extended warranty, are recognized over time based on the contractual obligation period. In addition, certain arrangements to provide more customized deliverables may be satisfied over time based on the extent of progress towards completion. Typically, progress is measured using a cost-to-cost method based on cost incurred to date relative to total estimated costs upon completion as this best depicts the transfer of control to the customer. Application of the cost-to-cost method requires the Company to make reasonable estimates of the extent of progress toward completion and the total costs the Company expects to incur. Losses are

Edgar Filing: BRUKER CORP - Form 10-Q

recorded immediately when we estimate that contracts will ultimately result in a loss.

The Company includes costs incurred in connection with shipping and handling of products within selling, general and administrative costs. Amounts billed to customers in connection with these costs are included in total revenues. When control of the goods transfer prior to the completion of the Company's obligation to ship the products to its customers, the Company has elected the practical expedient to account for the shipping services as a fulfillment cost. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period is one year or less or the amount is immaterial. The Company excludes from the transaction price all taxes assessed by a governmental authority on revenue-producing transactions that are collected by the Company from a customer.

Edgar Filing: BRUKER CORP - Form 10-Q

Table of Contents

The Company requires an advance deposit based on the terms and conditions of contracts with customers for many of its contracts. Typically, revenue is recognized within one year of receiving an advance deposit. The Company does not have any material payment terms that extend beyond one year. For contracts where an advance payment is received greater than one year from expected revenue recognition, or a portion of the payment due extends beyond one year, the Company determined it does not constitute a significant financing component. There is minimal variable consideration included in the transaction price of the Company's contracts.

The Company's revenues and cash flows may be adversely impacted by unfavorable changes in economic or political conditions in the countries and markets in which they operate, including, among others, adverse changes in interest rates or tax rates, volatility in financial and commodity markets, contraction in the availability of credit in the marketplace, and changes in capital spending patterns. Economic factors that could adversely influence demand for the Company's products include uncertainty about global economic conditions leading to reduced levels of investment, changes in government spending levels and/or priorities, the size and availability of government budgets, customers' and suppliers' access to credit and other macroeconomic factors affecting government, academic or industrial spending behavior. Slower economic growth or deterioration in economic conditions could result in a decrease in government funding for scientific research, a delay in orders from current or potential customers or a reduction in purchases of our products. The Company cannot predict how changes in economic conditions or political instability will affect customers and suppliers or how any negative impact on customers and suppliers might adversely impact the Company's business results or financial condition.

The following table presents the Company's revenues by Group and end customer geographical location for the three and six month periods ended June 30, 2018 (in millions):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenue by Group:		
Bruker BioSpin	\$ 139.9	\$ 271.7
Bruker CALID	128.0	259.3
Bruker Nano	134.5	258.4
BEST	42.7	88.3
Eliminations	(1.4)	(2.3)
Total revenue	\$ 443.7	\$ 875.4

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenue by End Customer Geography:		
United States	\$ 108.4	\$ 213.2
Germany	48.9	90.4
Rest of Europe	111.9	231.8
Asia Pacific	135.5	262.4
Other	39.0	77.6
Total revenue	\$ 443.7	\$ 875.4

Revenue for the Company recognized at a point in time versus over time is as follows for the three and six month periods ended June 30, 2018 (in millions):

Table of Contents

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenue recognized at a point in time	\$ 405.3	\$ 800.5
Revenue recognized over time	38.4	74.9
Total revenue	\$ 443.7	\$ 875.4

Remaining Performance Obligations

Remaining performance obligations represent the aggregate transaction price allocated to a promise to transfer a good or service which are fully or partially unsatisfied at the end of the period. As of June 30, 2018, remaining performance obligations were approximately \$1,025.6 million. The Company expects to recognize revenue on approximately 77.9% of the remaining performance obligations over the next twelve months and the remaining performance obligations primarily within one to three years.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets) and deferred revenue, customer deposits and billings in excess of revenue recognized (contract liabilities) on the Company's unaudited condensed consolidated balance sheets.

Contract assets Most of the Company's long-term contracts are billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. Billing often occurs subsequent to revenue recognition, resulting in contract assets. Contract assets are generally classified as current assets in the unaudited condensed consolidated balance sheets. The balance of contract assets as of June 30, 2018 and January 1, 2018, the date of adoption of ASC 606, was \$22.0 million and \$12.8 million, respectively. The increase in the contract asset balance during the six month period ended June 30, 2018 is primarily a result of foreign currency translation and contracts which have been recognized as revenue during the six month period ending June 30, 2018 for which billing cannot contractually occur as of June 30, 2018.

Contract liabilities The Company often receives cash payments from customers in advance of the Company's performance, resulting in contract liabilities. These contract liabilities are classified as either current or long-term in the unaudited condensed consolidated balance sheet based on the timing of when revenue recognition is expected. As of June 30, 2018 and January 1, 2018, the date of adoption of ASC 606, contract liabilities were \$288.2 million and \$291.3 million, respectively. The decrease in the contract liability balance during the six month period ended June 30, 2018 is primarily a result of satisfying performance obligations and foreign currency translation which were offset in part by new cash payments received. Approximately \$100.7 million that was included in the contract liability balance at the date of adoption was recognized as revenue during the period.

3. Acquisitions

2018

On April 8, 2018, the Company acquired a 100% interest in Anasys Instruments Corp. (Anasys), a privately held company, for a purchase price of \$27.0 million with the potential for additional consideration based on revenue achievements in 2019 and 2020. Anasys develops and manufactures nanoscale infrared spectroscopy and thermal measurement instruments. Anasys will be integrated into the Bruker Nano Group within the BSI reportable segment. The acquisition of Anasys was accounted for under the acquisition method. The components and fair value allocation of the consideration transferred in connection with the acquisition were as follows (in millions):

Table of Contents

Consideration Transferred:		
Cash paid	\$	27.0
Contingent consideration		5.3
Total consideration transferred	\$	32.3
Allocation of Consideration Transferred:		
Inventories		2.8
Accounts receivable		0.8
Other current and non-current assets		1.1
Intangible assets:		
Technology		7.3
Customer relationships		8.0
Backlog		1.8
Trade name		0.6
Goodwill		16.6
Deferred taxes, net		(3.2)
Liabilities assumed		(3.5)
Total consideration allocated	\$	32.3

The preliminary fair value allocation included contingent consideration in the amount of \$5.3 million, which represented the estimated fair value of future payments to the former shareholders of Anasys based on achieving annual revenue targets for the years 2019 and 2020. The Company expects to complete the fair value allocation in the fourth quarter of 2018. The amortization period for all intangible assets acquired in connection with Anasys is eight years, except for backlog which will be amortized over one year.

The results of Anasys, including the amount allocated to goodwill that is attributable to expected synergies and not expected to be deductible for tax purposes, have been included in the BSI Segment from the date of acquisition. Pro forma financial information reflecting the acquisition of Anasys has not been presented because the impact on revenues, net income and total assets is not material.

2017

On May 5, 2017, the Company acquired 100% of the shares of Luxendo GmbH (Luxendo), a privately held spin-off of the European Molecular Biology Laboratory (EMBL), for a purchase price of Euro 17 million (approximately \$18.8 million), with the potential for additional consideration based on revenue achievements in 2018 through 2021. Luxendo is a developer and manufacturer of proprietary light-sheet fluorescence microscopy instruments and the Company believes the acquisition enhances the Company's portfolio of swept-field confocal, super-resolution, and multiphoton fluorescence microscope product lines for small organism embryology, live-cell imaging, brain development and cleared brain tissue and optogenetics applications. Luxendo is located in Heidelberg, Germany and is being integrated into the Bruker Nano Group within the BSI reportable segment. The acquisition of Luxendo was accounted for under the acquisition method. The components and fair value allocation of the consideration transferred in connection with the acquisition were as follows (in millions):

Table of Contents

Consideration Transferred:		
Cash paid	\$	20.1
Cash acquired		(1.3)
Contingent consideration		3.1
Total consideration transferred	\$	21.9
Allocation of Consideration Transferred:		
Inventories		1.1
Other current and non-current assets		0.4
Property, plant and equipment		0.3
Intangible assets:		
Existing technology		10.9
Trade name		0.8
Goodwill		11.2
Deferred taxes, net		(2.4)
Liabilities assumed		(0.4)
Total consideration allocated	\$	21.9

The amortization period for intangible assets acquired in connection with the acquisition of Luxendo is ten years for trade names and seven years for technology.

The results of Luxendo, including the amount allocated to goodwill that is attributable to expected synergies and not expected to be deductible for tax purposes, have been included in the BSI Segment from the date of acquisition. Pro forma financial information reflecting the acquisition of Luxendo has not been presented because the impact on revenues, net income and total assets is not material.

On January 23, 2017, the Company acquired 100% of the shares of Hysitron, Incorporated (Hysitron). The acquisition adds Hysitron's nanomechanical testing instruments to the Company's existing portfolio of atomic force microscopes, surface profilometers, and tribology and mechanical testing systems. Hysitron is included in the Bruker Nano Group within the BSI reportable segment. The acquisition of Hysitron was accounted for under the acquisition method. The components and fair value allocation of the consideration transferred in connection with the acquisition of Hysitron were as follows (in millions):

Consideration Transferred:		
Cash paid	\$	27.9
Cash acquired		(0.7)
Contingent consideration		1.6
Total consideration transferred	\$	28.8
Allocation of Consideration Transferred:		
Accounts receivable, net	\$	3.0
Inventories		3.8
Other current assets		0.2
Property, plant and equipment		0.6
Intangible assets:		
Customer relationships		5.8
Existing technology		4.7
Trade name		1.2
Other		0.6
Goodwill		16.6

Edgar Filing: BRUKER CORP - Form 10-Q

Deferred taxes, net		(4.1)
Capital lease		(0.2)
Liabilities assumed		(3.4)
Total consideration allocated	\$	28.8

Table of Contents

The amortization period for intangible assets acquired in connection with Hysitron is seven years for customer relationships, trademarks and other intangibles and five years for existing technology.

The results of Hysitron, including the amount allocated to goodwill that is attributable to expected synergies and not expected to be deductible for tax purposes, have been included in the BSI Segment from the date of acquisition. Pro forma financial information reflecting the acquisition of Hysitron has not been presented because the impact on revenues, net income and total assets is not material.

4. Stock-Based Compensation

On May 14, 2010, the Bruker Corporation 2010 Incentive Compensation Plan (the "2010 Plan") was approved by the Company's stockholders. The 2010 Plan provided for the issuance of up to 8,000,000 shares of the Company's common stock. The 2010 Plan allowed a committee of the Board of Directors (the "Compensation Committee") to grant incentive stock options, non-qualified stock options and restricted stock awards. The Compensation Committee had the authority to determine which employees would receive the awards, the amount of the awards and other terms and conditions of any awards. Awards granted under the 2010 Plan typically were made subject to a vesting period of three to five years.

On May 20, 2016, the Bruker Corporation 2016 Incentive Compensation Plan (the "2016 Plan") was approved by the Company's stockholders. With the approval of the 2016 Plan, no further grants will be made under the 2010 Plan. The 2016 Plan provides for the issuance of up to 9,500,000 shares of the Company's common stock and permits the grant of awards of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares and performance units, as well as cash-based awards. The 2016 Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee has the authority to determine which employees will receive awards, the amount of any awards, and other terms and conditions of such awards. Awards granted under the 2016 Plan typically vest over a period of one to four years.

The Company recorded stock-based compensation expense as follows in the unaudited condensed consolidated statements of income and comprehensive income (loss) (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	\$ 1.0	\$ 1.7	\$ 2.0	\$ 3.4
Restricted stock awards	0.2	0.4	0.4	0.7
Restricted stock units	1.2	0.6	2.5	1.2
Total stock-based compensation	\$ 2.4	\$ 2.7	\$ 4.9	\$ 5.3

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Costs of product revenue	\$ 0.3	\$ 0.4	\$ 0.7	\$ 0.8
Selling, general and administrative	1.8	1.9	3.5	3.7
Research and development	0.3	0.4	0.7	0.8
Total stock-based compensation	\$ 2.4	\$ 2.7	\$ 4.9	\$ 5.3

Edgar Filing: BRUKER CORP - Form 10-Q

Stock-based compensation expense is recognized on a straight-line basis over the underlying requisite service period 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 four years. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options awarded during the six months ended June 30, 2018. Assumptions for the six months ended June 30, 2017 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:

Table of Contents

	2017
Risk-free interest rates	1.78% - 2.09%
Expected life	5.56 years
Volatility	31.41% - 34.13%
Expected dividend yield	0.58% - 0.74%

Stock option activity for the six months ended June 30, 2018 was as follows:

	Shares Subject to Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value (in millions) (b)
Outstanding at December 31, 2017	3,235,673	\$ 20.16		
Exercised	(402,354)	17.65		
Forfeited	(161,971)	20.11		
Outstanding at June 30, 2018	2,671,348	\$ 20.53	6.2	\$ 22.8
Exercisable at June 30, 2018	1,441,435	\$ 18.92	5.5	\$ 14.6
Exercisable and expected to vest at June 30, 2018 (a)	2,526,346	\$ 20.42	6.1	\$ 21.8

(a) In addition to the options that are vested at June 30, 2018, 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 June 30, 2018.

(b) The aggregate intrinsic value is based on the positive difference between the fair value of the Company's common stock price of \$29.04 on June 30, 2018 and the exercise price of the underlying stock options.

The weighted average fair value of options granted was \$7.57 per share during the six months ended June 30, 2017, with no corresponding amount in the current period.

The total intrinsic value of options exercised was \$5.3 million and \$6.7 million for the six months ended June 30, 2018 and 2017, respectively.

Restricted stock award activity for the six months ended June 30, 2018 was as follows:

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	85,529	\$ 20.39

Edgar Filing: BRUKER CORP - Form 10-Q

Vested	(11,584)	19.87
Forfeited	(6,553)	24.80
Outstanding at June 30, 2018	67,392	\$ 20.05

The total fair value of restricted stock vested was \$0.2 million in each of the six months ended June 30, 2018 and 2017.

Restricted stock unit activity for the six months ended June 30, 2018 was as follows:

Table of Contents

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	652,123	\$ 25.47
Granted	53,891	35.15
Vested	(49,619)	22.87
Forfeited	(47,787)	26.61
Outstanding at June 30, 2018	608,608	\$ 26.45

The total fair value of restricted stock units vested was \$1.1 million and \$0.2 million for the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018, the Company expects to recognize pre-tax stock-based compensation expense of \$5.2 million associated with outstanding stock option awards granted under the Company's stock plans over the weighted average remaining service period of 2.0 years. The Company expects to recognize additional pre-tax stock-based compensation expense of \$0.5 million associated with outstanding restricted stock awards granted under the Company's stock plans over the weighted average remaining service period of 1.0 year. The Company also expects to recognize additional pre-tax stock-based compensation expense of \$11.3 million associated with outstanding restricted stock units granted under the 2016 Plan over the weighted average remaining service period of 2.8 years.

5. 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.

The following table sets forth the computation of basic and diluted weighted average shares outstanding and net income per common share attributable to Bruker Corporation shareholders (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income attributable to Bruker Corporation, as reported	\$ 31.2	\$ 23.4	\$ 58.2	\$ 45.0
Weighted average shares outstanding:				
Weighted average shares outstanding-basic	156.1	159.5	156.0	159.6
Effect of dilutive securities:				
Stock options and restricted stock awards and units	0.9	0.9	1.0	0.8
	157.0	160.4	157.0	160.4

Edgar Filing: BRUKER CORP - Form 10-Q

Net income per common share attributable to
Bruker Corporation shareholders:

Basic	\$	0.20	\$	0.15	\$	0.37	\$	0.28
Diluted	\$	0.20	\$	0.15	\$	0.37	\$	0.28

Stock options to purchase approximately 0.2 million shares and 1.2 million shares were excluded from the computation of diluted earnings per share in the three months ended June 30, 2018 and 2017, respectively, as their effect would have been anti-dilutive. Approximately 0.2 million shares and 1.4 million shares were excluded from the computation of diluted earnings per share in the six months ended June 30, 2018 and 2017, respectively, as their effect would have been anti-dilutive.

Table of Contents

6. 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).

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 June 30, 2018 and December 31, 2017 (in millions):

Table of Contents

June 30, 2018	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Embedded derivatives in purchase and delivery contracts	\$ 0.7	\$	\$ 0.7	\$
Foreign exchange contracts	0.6		0.6	
Total assets recorded at fair value	\$ 1.3	\$	\$ 1.3	\$
Liabilities:				
Contingent consideration	\$ 13.0	\$	\$	\$ 13.0
Foreign exchange contracts	4.3		4.3	
Embedded derivatives in purchase and delivery contracts	1.4		1.4	
Fixed price commodity contracts	0.1		0.1	
Total liabilities recorded at fair value	\$ 18.8	\$	\$ 5.8	\$ 13.0

December 31, 2017	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign exchange contracts	\$ 4.5	\$	\$ 4.5	\$
Embedded derivatives in purchase and delivery contracts	0.9		0.9	
Fixed price commodity contracts	0.8		0.8	
Total assets recorded at fair value	\$ 6.2	\$	\$ 6.2	\$
Liabilities:				
Contingent consideration	\$ 12.7	\$	\$	\$ 12.7
Foreign exchange contracts	0.1		0.1	
Embedded derivatives in purchase and delivery contracts	2.9		2.9	
Total liabilities recorded at fair value	\$ 15.7	\$	\$ 3.0	\$ 12.7

The Company's financial instruments consist primarily of cash equivalents, short-term investments, restricted cash, derivative instruments consisting of foreign exchange contracts, commodity contracts, derivatives embedded in certain purchase and sale contracts, accounts receivable, borrowings under a revolving credit agreement, accounts payable, contingent consideration and long-term debt. The carrying amounts of the Company's cash equivalents, short-term investments and restricted cash, accounts receivable, borrowings under a revolving credit agreement and accounts payable approximate fair value because of 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 fixed interest rate debt, which has been classified as Level 2, was \$227.5 million and \$231.3 million at June 30, 2018 and December 31, 2017, respectively, based on the outstanding amount at June 30, 2018 and December 31, 2017, market prices and observable sources with similar maturity dates.

The Company measures certain assets and liabilities at fair value with changes in fair value recognized in earnings. 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

Table of Contents

liabilities and did not elect the fair value option for any financial assets or liabilities which originated during the three or six months ended June 30, 2018 or 2017.

Excluded from the table above are cash equivalents, restricted cash and short-term investments related to time and call deposits. The Company has a program to enter into time deposits with varying maturity dates ranging from one to twelve months, as well as call deposits for which the Company has the ability to redeem the invested amounts over a period of 95 days. The Company has classified these investments within cash and cash equivalents or short-term investments within the consolidated balance sheets based on call and maturity dates and these are not subject to fair value measurement. The following tables set forth the balances of cash equivalents, restricted cash and short-term investments as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Cash Equivalents	\$	\$
Restricted Cash	3.8	3.9
Short-term Investments		114.2

As part of certain acquisitions, 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 and gross margin targets in certain years as specified in the purchase and sale agreements. The Company initially values the contingent considerations by using a Monte Carlo simulation or an income approach method. The Monte Carlo method models future revenue and costs of goods sold projections and discounts the average results to present value. The income approach method involves calculating the earnout payment based on the forecasted cash flows, adjusting the future earnout payment for the risk of reaching the projected financials, and then discounting the future payments to present value by the counterparty risk. The counterparty risk considers the risk of the buyer having the cash to make the earnout payments and is commensurate with a cost of debt over an appropriate term.

For the six months ended June 30, 2018, additional contingent consideration of \$0.6 million was recognized in earnings related to a recent acquisition within the Bruker Nano Group based upon an increase in forecasted revenue levels for the acquired business for the remainder of 2018 and was recorded within other charges, net in the unaudited condensed consolidated statements of income and comprehensive income (loss).

The following table sets forth the changes in contingent consideration liabilities for the six months ended June 30, 2018 (in millions):

Balance at December 31, 2017	\$	12.7
Current period additions		5.3
Current period adjustments		0.6
Current period settlements		(5.5)
Foreign currency effect		(0.1)
Balance at June 30, 2018	\$	13.0

7. Restricted Cash

Edgar Filing: BRUKER CORP - Form 10-Q

Restricted cash is included as a component of cash, cash equivalents, and restricted cash on the Company's unaudited condensed consolidated statement of cash flows. The Company has certain subsidiaries which are required by local governance to maintain restricted cash balances to cover future employee benefit payments. Restricted cash balances are classified as non-current unless, under the terms of the applicable agreements, the funds will be released from restrictions within one year from the balance sheet date. The current and non-current portion of restricted cash is recorded within other current assets and other long-term assets, respectively, in the accompanying consolidated balance sheets.

The inclusion of restricted cash increased the balances of the unaudited condensed consolidated statement of cash flows as follows:

Table of Contents

Six Months Ended June 30,			
	2018		2017
Beginning Balance	\$ 3.9	\$	3.5
Ending Balance	3.8		3.7

8. Inventories

Inventories consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Raw materials	\$ 158.4	\$ 152.0
Work-in-process	203.0	183.1
Finished goods	87.7	96.6
Demonstration units	60.3	54.5
Inventories	\$ 509.4	\$ 486.2

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 June 30, 2018 and December 31, 2017, the value of inventory-in-transit was \$25.6 million and \$41.4 million, respectively.

9. Goodwill and Intangible Assets

The following table sets forth the changes in the carrying amount of goodwill for the six months ended June 30, 2018 (in millions):

Balance at December 31, 2017	\$ 169.8
Current period additions	24.3
Foreign currency effect	(1.7)
Balance at June 30, 2018	\$ 192.4

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

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology and related patents	\$ 206.8	\$ (151.6)	\$ 55.2	\$ 195.4	\$ (138.9)	\$ 56.5
Customer relationships	42.3	(15.0)	27.3	34.6	(12.9)	21.7

Edgar Filing: BRUKER CORP - Form 10-Q

Non compete contracts	1.8	(1.7)	0.1	1.8	(1.5)	0.3
Trade names	4.8	(1.3)	3.5	4.2	(0.9)	3.3
Other	1.8	(0.5)	1.3			
Intangible assets subject to amortization	257.5	(170.1)	87.4	236.0	(154.2)	81.8
In-process research and development	0.6		0.6	0.6		0.6
Intangible assets	\$ 258.1	\$ (170.1)	\$ 88.0	\$ 236.6	\$ (154.2)	\$ 82.4

For the three months ended June 30, 2018 and 2017, the Company recorded amortization expense of \$7.8 million and \$7.5 million, respectively, related to intangible assets subject to amortization. For the six months ended June 30, 2018 and 2017, the Company recorded amortization expense of \$14.6 million and \$14.4 million, respectively, related to intangible assets subject to amortization.

The goodwill and intangible assets acquired in the six months ended June 30, 2018 related primarily to the Anasys acquisitions. Please see Note 3 Acquisitions, for additional details on the goodwill and intangibles acquired.

Table of Contents**10. Debt**

The Company's debt obligations as of June 30, 2018 and December 31, 2017 consisted of the following (in millions):

	June 30, 2018	December 31, 2017
US Dollar revolving loan under the 2015 Credit Agreement	\$	\$ 195.0
US Dollar notes under the Note Purchase Agreement	220.0	220.0
Unamortized debt issuance costs under the Note Purchase Agreement	(0.6)	(0.7)
Capital lease obligations and other loans	1.2	1.3
Total debt	220.6	415.6
Current portion of long-term debt	(15.0)	
Total long-term debt, less current portion	\$ 205.6	\$ 415.6

On October 27, 2015, the Company entered into a new revolving credit agreement, referred to as the 2015 Credit Agreement. The 2015 Credit Agreement provides a maximum commitment on the Company's revolving credit line of \$500 million and a maturity date of October 2020. Borrowings under the revolving credit line of the 2015 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%, plus margins ranging from 0.00% to 0.30% or (b) LIBOR, plus margins ranging from 0.90% to 1.30%. There is also a facility fee ranging from 0.10% to 0.20%.

Borrowings under the 2015 Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the 2015 Credit Agreement. The 2015 Credit Agreement also requires the Company to maintain certain financial ratios related to maximum leverage and minimum interest coverage (as defined in the 2015 Credit Agreement). Specifically, the Company's leverage ratio cannot exceed 3.5 and the Company's interest coverage ratio cannot be less than 2.5. In addition to the financial ratios, the 2015 Credit Agreement contains negative covenants, including among others, restrictions on liens, indebtedness of the Company and its subsidiaries, asset sales, dividends and transactions with affiliates. Failure to comply with any of these restrictions or covenants may result in an event of default on the 2015 Credit Agreement, which could permit acceleration of the debt and require the Company to prepay the debt before its scheduled due date. As of June 30, 2018, there were no outstanding borrowings under the 2015 Credit Agreement.

The following is a summary of the maximum commitments and the net amounts available to the Company under the 2015 Credit Agreement and other lines of credit with various financial institutions located primarily in Germany and Switzerland that are unsecured and typically due upon demand with interest payable monthly, at June 30, 2018 (in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Letters of Credit	Total Amount Available
2015 Credit Agreement	0.0%	\$ 500.0	\$	\$ 1.1	\$ 498.9
Other lines of credit		250.5		123.4	127.1
Total revolving lines of credit		\$ 750.5	\$	\$ 124.5	\$ 626.0

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

Edgar Filing: BRUKER CORP - Form 10-Q

Senior Notes, which consisted 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.

Table of Contents

On January 18, 2017, the outstanding \$20.0 million principal amount of Tranche A of the Senior Notes was repaid in accordance with the terms of the Note Purchase Agreement.

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 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 defaults, 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 June 30, 2018, the Company was in compliance with the covenants of the Note Purchase Agreement and the 2015 Credit Agreement. The Company's leverage ratio (as defined in the respective agreements) was 0.66 and interest coverage ratio (as defined in the respective agreements) was 18.1.

11. 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 2015 Credit Agreement, which did not have an outstanding balance as of June 30, 2018. The Company currently has 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 and Switzerland, 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 currency translation 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 (loss). The Company had the following notional amounts outstanding under foreign exchange contracts at June 30, 2018 and December 31, 2017 (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
June 30, 2018:						
Euro	51.7	U.S. Dollars	July 2018 to January 2019	\$ 64.4	\$	\$ 3.7
U.S. Dollars	16.5	Euro	July 2018	16.0	0.5	
Swiss Francs	12.5	U.S. Dollars	July 2018	13.0		0.4
U.S. Dollars	3.1	Swiss Francs	July 2018	3.1		
Swiss Francs	1.1	Japanese Yen	July 2018	1.1		
Japanese Yen	120.9	Swiss Francs	July 2018	1.1		
U.S. Dollars	2.6	Japanese Yen	July 2018	2.5	0.1	
Japanese Yen	282.0	U.S. Dollars	July 2018	2.6		
Euro	1.7	Japanese Yen	July 2018	2.0		0.1
Japanese Yen	219.8	Euro	July 2018	1.4		
Singapore Dollar	3.2	U.S. Dollars	July 2018	2.4		0.1
				\$ 109.6	\$ 0.6	\$ 4.3
December 31, 2017:						
Euro	59.5	U.S. Dollars	January 2018	\$ 67.0	\$ 4.5	\$
Swiss Francs	11.0	U.S. Dollars	January 2018	11.3		
Singapore Dollar	4.9	U.S. Dollars	January 2018	3.6		
Euro	1.8	Polish Zloty	January 2018	2.3		0.1
				\$ 84.2	\$ 4.5	\$ 0.1

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 \$110.9 million for the delivery of products and \$3.7 million for the purchase of products at June 30, 2018 and \$98.3 million for the delivery of products and \$3.6 million for the purchase of products at December 31, 2017. The changes in the fair value of these embedded derivatives are recorded in interest and other income (expense), net in the consolidated statements of income and comprehensive income (loss).

Commodity Price Risk Management

Edgar Filing: BRUKER CORP - Form 10-Q

The Company has arrangements with certain customers under which it has a firm commitment to deliver copper based superconductor wire 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 commodities, the Company enters into commodity hedge contracts. At June 30, 2018 and December 31, 2017, the Company had fixed price commodity contracts with notional amounts aggregating \$6.8 million and \$3.0 million, respectively. The changes in the fair value of these commodity contracts are recorded within interest and other income (expense), net in the unaudited condensed consolidated statements of income and comprehensive income (loss).

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

Table of Contents

	Balance Sheet Location	June 30, 2018	December 31, 2017
Derivative assets:			
Foreign exchange contracts	Other current assets	\$ 0.6	\$ 4.5
Embedded derivatives in purchase and delivery contracts	Other current assets	0.6	0.9
Fixed price commodity contracts	Other current assets		0.8
Embedded derivatives in purchase and delivery contracts	Other long-term assets	0.1	
Derivative liabilities:			
Foreign exchange contracts	Other current liabilities	\$ 4.3	\$ 0.1
Embedded derivatives in purchase and delivery contracts	Other current liabilities	0.6	1.5
Fixed price commodity contracts	Other current liabilities	0.1	
Embedded derivatives in purchase and delivery contracts	Other long-term liabilities	0.8	1.4

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Foreign exchange contracts	\$ (3.8)	\$ 6.1	\$ (8.1)	\$ 7.0
Embedded derivatives in purchase and delivery contracts	1.2	(3.0)	1.3	(3.7)
Fixed price commodity contracts	(0.3)	0.1	(0.9)	0.2
Net impact to interest and other income (expense)	\$ (2.9)	\$ 3.2	\$ (7.7)	\$ 3.5

The amounts related to derivative instruments not designated as hedging instruments are recorded within interest and other income (expense), net in the unaudited condensed consolidated statements of income and comprehensive income (loss).

12. Provision for Income Taxes

On December 22, 2017 (Enactment Date), the President of the United States signed tax reform legislation (2017 Tax Act), which enacted a wide range of changes to the U.S. corporate income tax system, many of which differ significantly from the provisions of the previous U.S. tax law. Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, which provides companies with additional guidance on how to implement the provisions of the 2017 Tax Act in their financial statements. The guidance provides for a measurement period, up to one year from the Enactment Date, in which provisional amounts may be adjusted when additional information is obtained, prepared or analyzed about facts and circumstances that existed as of the Enactment Date, if known, which would have impacted the amounts that were initially recorded by the Company.

The Company has not yet completed the assessment of the tax effects associated with the enactment of the 2017 Tax Act; however, a reasonable estimate has been made of the effects on the existing deferred tax balances and the one-time transition tax. Changes in the tax rates and laws are accounted for in the period of enactment. The Company expects to finalize the provisional estimates before the end of 2018 after completing the review and analysis, including reviews and analyses of any interpretations issued during this measurement period.

The 2017 Tax Act also transitions international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of the Company's foreign subsidiaries to U.S. taxation as global intangible low-taxed income (GILTI). These changes became effective beginning in 2018. The Company does not recognize deferred taxes for the basis differences expected to reverse as GILTI is incurred. The Company instead accounts for any taxes assessed as period costs.

Table of Contents

The actual results of the implementation of the 2017 Tax Act may materially differ from the Company's current estimate due to, among other things, further guidance that may be issued by U.S. tax authorities or regulatory bodies including the SEC and the FASB to interpret the 2017 Tax Act. The Company will continue to analyze the 2017 Tax Act and any additional guidance that may be issued and finalize the full effects of applying the new legislation in the measurement period.

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 June 30, 2018 and 2017 was \$11.8 million and \$6.2 million, respectively, representing effective tax rates of 27.3% and 20.5%, respectively. The income tax provision for the six months ended June 30, 2018 and 2017 was \$20.2 million and \$16.1 million, respectively, representing effective tax rates of 25.5% and 26.1%, respectively. The increase in the Company's effective tax rate for the three ended June 30, 2018, compared to the same period in 2017, was primarily due to the non-recurring impact of unfavorable discrete items in the three month period ended June 30, 2018. The decrease in the Company's effective tax rate for the six months ended June 30, 2018, compared to the same period in 2017, was primarily due to the non-recurring impact of unfavorable discrete items in the six month period ended June 30, 2017. The Company's effective tax rate may change over time as the amount or mix of income and taxes changes among the jurisdictions in which the Company is subject to tax.

As of June 30, 2018 and December 31, 2017, the Company had unrecognized tax benefits, excluding penalties and interest, of approximately \$4.5 million and \$4.4 million, respectively, which, 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 June 30, 2018 and December 31, 2017, approximately \$0.4 million and \$0.2 million, respectively, of accrued interest and penalties related to uncertain tax positions was included in other long-term liabilities on the Company's unaudited condensed consolidated balance sheets. No penalties and interest were recorded in the provision for income taxes for unrecognized tax benefits during the three and six months ended June 30, 2018 or June 30, 2017.

The Company files tax returns in the United States, which includes 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 majority of the Company's earnings are derived in Germany and Switzerland. Accounting for the various federal and local taxing authorities, the statutory rates for 2018 are approximately 30.0% and 20.0% for Germany and Switzerland, respectively. The mix of earnings in those two jurisdictions resulted in an increase of 4.0% from the U.S. statutory rate of 21.0% in the six months ended June 30, 2018. The Company has not been a party to any tax holiday agreements. The tax years 2013 to 2017 are open to examination in Germany and Switzerland. Tax years 2011 to 2017 remain open for examination in the United States.

13. Commitments and Contingencies

In accordance with ASC Topic 450, Contingencies, the Company accrues anticipated costs of settlement, damages or other costs to the extent specific losses are probable and estimable.

Litigation and Related Contingencies

Lawsuits, claims and proceedings of a nature considered normal to its businesses may be pending from time to time against the Company. Third parties might allege that the Company or its collaborators are infringing their patent rights or that the Company is otherwise violating their intellectual property rights. Loss contingency provisions are recorded if the potential loss from any claim, asserted or unasserted, or legal proceeding is considered probable and the amount can be reasonably estimated or a range of loss can be determined. These accruals represent management's best estimate of probable loss. Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. The Company believes the outcome of pending proceedings, individually and in the aggregate, will not have a material impact on the Company's financial statements. As of June 30, 2018 and December 31, 2017, no material accruals have been recorded for potential contingencies.

Table of Contents

Governmental Investigations

The Company is subject from time to time to investigations by U.S. or foreign governmental agencies, from which civil, criminal or administrative proceedings could result.

On October 19, 2017, we received a notice of investigation and subpoena to produce documents from the Division of Enforcement of the SEC. The subpoena seeks information related to an employee terminated as part of a restructuring and certain matters involving the Company's policies and accounting practices related to revenue recognition and restructuring activities, as well as related financial reporting, disclosure and compliance matters, since January 1, 2013. The subpoena also seeks information concerning, among other things, the Company's previously identified material weakness in internal controls over the accounting for income taxes, related financial reporting matters and certain payments for non-employee travel expenses. The Company is producing documents in response to the subpoena and intends to continue to cooperate fully with the SEC's investigation. Additionally, the Audit Committee of the Company's Board of Directors, with the assistance of outside counsel, is conducting an internal investigation into practices of certain business partners in China and into the conduct of former employees of the Bruker Optics division in China that raised questions of compliance with laws, including the U.S. Foreign Corrupt Practices Act, and/or compliance with our business policies and code of conduct. The Company has voluntarily disclosed this matter to the SEC and U.S. Department of Justice. At this time, we are unable to predict the duration, scope or outcome of these investigations.

Letters of Credit and Guarantees

At June 30, 2018 and December 31, 2017, the Company had bank guarantees of \$124.5 million and \$138.8 million, related primarily to 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.

14. Shareholders' Equity

Share Repurchase Program

In May 2017, the Company's Board of Directors approved a share repurchase program under which repurchases of common stock up to \$225.0 million may occur from time to time, in amounts, at prices, and at such times as the Company deems appropriate, subject to market conditions, legal requirements and other considerations. No repurchases occurred in the three and six months ended June 30, 2018. Any future repurchases will be funded from cash on hand, future cash flows from operations and available borrowings under the revolving credit facility.

Cash Dividends on Shares of Common Stock

Edgar Filing: BRUKER CORP - Form 10-Q

On February 22, 2016, the Company announced the establishment of a dividend policy and the declaration by its Board of Directors of an initial quarterly cash dividend in the amount of \$0.04 per share of the Company's issued and outstanding common stock. Under the dividend policy, the Company will target a cash dividend to the Company's shareholders in the amount of \$0.16 per share per annum, payable in equal quarterly installments. The following is a summary of the dividends paid in the periods ended June 30, 2018 and 2017 (in millions):

2018			
Dividends Paid on	March 23		June 22
Shareholders of Record as of	March 6		June 4
Aggregate Cost	\$	6.3	\$ 6.2

2017			
Dividends Paid on	March 24		June 23
Shareholders of Record as of	March 8		June 5
Aggregate Cost	\$	6.4	\$ 6.4

Subsequent dividend declarations and the establishment of record and payment dates for such future dividend payments, if any, are subject to the Board of Directors' continuing determination that the dividend policy is in the best interests of the Company's shareholders. The dividend policy may be suspended or cancelled at the discretion of the Board of Directors at any time.

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 (loss), but excluded from net income as these amounts are recorded directly as an adjustment to

Table of Contents

shareholders' equity, net of tax. The Company's other 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Consolidated net income	\$ 31.5	\$ 24.0	\$ 58.9	\$ 45.7
Foreign currency translation adjustments	(39.4)	49.5	(14.6)	65.1
Pension liability adjustments, net of tax	2.5	(1.9)	2.1	(1.7)
Net comprehensive income	(5.4)	71.6	46.4	109.1
Less: Comprehensive income (loss) attributable to noncontrolling interests	(0.2)	1.0	0.4	1.2
Comprehensive income (loss) attributable to Bruker Corporation	\$ (5.2)	\$ 70.6	\$ 46.0	\$ 107.9

The following is a summary of the components of accumulated other comprehensive income (loss), net of tax, at June 30, 2018 (in millions):

	Foreign Currency Translation	Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	\$ 72.2	\$ (45.2)	\$ 27.0
Other comprehensive income (loss) before reclassifications	(14.3)	0.9	(13.4)
Amounts reclassified from other comprehensive income (loss), net of tax of \$0.1 million		1.2	1.2
Net current period other comprehensive income (loss)	(14.3)	2.1	(12.2)
Balance at June 30, 2018	\$ 57.9	\$ (43.1)	\$ 14.8

15. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$ 8.8	\$ 6.9	\$ 8.1	\$ 6.7
Net income	0.3	0.6	0.7	0.7
Foreign currency translation adjustments	(0.4)	0.4	(0.3)	0.5
Impact of ASC 606 adoption		(0.5)	0.2	(0.5)
Balance at end of period	\$ 8.7	\$ 7.4	\$ 8.7	\$ 7.4

16. Other Charges, Net

Edgar Filing: BRUKER CORP - Form 10-Q

The components of other charges, net were as follows (in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Information technology transformation costs	\$	0.9	\$	0.9	\$	2.4	\$	2.1
Restructuring charges		0.6		2.4		3.9		3.9
Acquisition-related charges		0.1		2.9		1.1		3.3
Other		0.6		0.2		2.6		0.2
Other charges, net	\$	2.2	\$	6.4	\$	10.0	\$	9.5

Table of Contents**Restructuring Initiatives**

Restructuring charges for the three and six month periods ended June 30, 2018 included charges for various programs which were recorded in the accompanying unaudited condensed consolidated statements of income and comprehensive income (loss). The charges for the three and six month periods ended June 30, 2017 related primarily to the previously reported and completed 2016 and 2015 restructuring plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenues	\$ 0.1	\$ 1.4	\$ 0.3	\$ 3.9
Other charges, net	0.6	2.4	3.9	3.9
	\$ 0.7	\$ 3.8	\$ 4.2	\$ 3.9

The following table sets forth the changes in restructuring reserves for the six months ended June 30, 2018 (in millions):

	Total	Severance	Exit Costs	Provisions for Excess Inventory
Balance at December 31, 2017	\$ 10.8	\$ 2.0	\$ 2.1	\$ 6.7
Restructuring charges	4.2	2.1	2.1	
Cash payments	(6.4)	(3.7)	(2.7)	
Other, non-cash adjustments and foreign currency effect	(2.4)	0.3	(0.5)	(2.2)
Balance at June 30, 2018	\$ 6.2	\$ 0.7	\$ 1.0	\$ 4.5

17. Interest and Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense, net	\$ (2.6)	\$ (3.8)	\$ (6.0)	\$ (7.5)
Exchange losses on foreign currency transactions	(1.5)	(1.9)	(1.0)	(4.2)
Pension components	(1.3)	(1.8)	(1.3)	(1.8)
Other	(0.1)	2.4	0.5	2.4
Interest and other income (expense), net	\$ (5.5)	\$ (5.1)	\$ (7.8)	\$ (11.1)

Pension components represents the amortization of prior service costs and actuarial gains/losses, interest costs and the return on plan assets. The current year service cost is included within cost of sales and operating expenses in the unaudited condensed consolidated statements of income and comprehensive income (loss).

18. Business Segment Information

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

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

24

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
BSI	\$ 402.4	\$ 362.5	\$ 789.4	\$ 708.9
BEST	42.7	54.0	88.3	94.1
Eliminations (a)	(1.4)	(1.6)	(2.3)	(3.2)
Total revenue	\$ 443.7	\$ 414.9	\$ 875.4	\$ 799.8
Operating Income (loss)				
BSI	\$ 47.2	\$ 32.3	\$ 82.9	\$ 70.4
BEST	1.7	3.0	3.9	2.5
Corporate, eliminations and other (b)	(0.1)		0.1	
Total operating income	\$ 48.8	\$ 35.3	\$ 86.9	\$ 72.9

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

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

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

	June 30, 2018	December 31, 2017
Assets:		
BSI	\$ 1,769.4	\$ 1,917.8
BEST	40.3	35.6
Eliminations and other (a)	(3.7)	(4.9)
Total assets	\$ 1,806.0	\$ 1,948.5

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

19. Recent Accounting Pronouncements

In March 2017, the FASB issued ASU No. 2017-07, *Compensation- Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This new standard intends to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new standard requires the service cost component of net periodic cost be reported in the same line item(s) as other employee compensation costs and all other components of the net periodic cost be reported in the condensed consolidated statements of income and comprehensive income (loss) below operating income. The Company adopted this guidance on January 1, 2018 on a retrospective basis. The Company reclassified the non-service pension cost previously reported in operations of \$1.8 million for the three and six months ended June 30, 2017. The impact of this for the three and six months ended June 30, 2018 was \$1.3 million. These amounts were previously reported in cost of sales, selling, general, and administrative, and research and development expenses in the unaudited condensed consolidated statements of income and comprehensive income (loss).

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new standard simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. This ASU will be applied prospectively and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on our financial position, results of operations or statements of cash flows upon adoption.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard was adopted as of the effective date of January 1, 2018. We have evaluated the provisions of this standard and have determined that the impact of adoption of ASU No. 2017-01 was not material to our consolidated financial statements.

Table of Contents

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740) Intra-Entity Transfer of Assets Other than Inventory*. The new standard requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from existing U.S. GAAP which prohibits recognition of current and deferred income taxes until the asset is sold to a third party. This new standard was adopted as of the effective date of January 1, 2018. We have evaluated the provisions of this standard and have determined that the impact of adoption of ASU No. 2016-16 was not material to our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of leases. The new standard supersedes present U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures. The new standard is effective as of January 1, 2019, and early adoption is permitted. The Company currently expects to adopt the new standard as of January 1, 2019. The Company is continuing to evaluate the provisions of the new standard, but currently expects that it will have a material impact on its consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities for substantially all leases currently accounted for as operating leases.

20. Subsequent Event

On July 11, 2018, Bruker acquired a 100% interest in JPK Instruments AG (JPK) for a purchase price of \$15.0 million, with the potential for additional consideration based on various operational achievements throughout 2019 and 2020. JPK adds in-depth expertise in live-cell imaging, cellular mechanics, adhesion, and molecular force measurements, optical trapping, and biological stimulus-response characterization to Bruker. JPK is located in Berlin, Germany and will be integrated into the Bruker Nano Group within the BSI reportable segment. The purchase accounting for this acquisition will be finalized within the measurement period.

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, 2017.

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, 2017.

Although our unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, we believe describing revenue and expenses, excluding the effects of foreign currency, acquisitions and divestitures, as well as certain other charges, net, provides meaningful supplemental information regarding our performance. Specifically, management believes that free cash flow and organic revenue, both non-GAAP financial measures, as well as non-GAAP gross

profit margin and non-GAAP operating margin, provide relevant and useful information which is widely used by equity analysts, investors and competitors in our industry, as well as by our management, in assessing both consolidated and business unit performance. We define the term organic revenue as GAAP revenue excluding the effect of foreign currency translation changes and the effect of acquisitions and divestitures. We define the term non-GAAP gross profit margin as GAAP gross profit margin with certain non-GAAP measures excluded and non-GAAP operating margin as GAAP operating margin with certain non-GAAP measures excluded. These non-GAAP measures exclude costs related to restructuring actions, acquisition and related integration expenses, amortization of acquired intangible assets, costs associated with our global information technology transition initiative and other non-operational costs that are infrequent or non-recurring in nature and we believe these are useful measures to evaluate our continuing business. We define free cash flow as net cash provided by operating activities less additions to property, plant, and equipment. We believe free cash flow is a useful measure to evaluate our business as it indicates the amount of cash generated after additions to property, plant, and equipment which is available for, among other things, investments in our business, acquisitions, share repurchases, dividends and repayment of debt. We use these non-GAAP financial measures to evaluate our period-over-period operating performance because our management believes they provide more comparable measures of our continuing business because they adjust for certain items that are not reflective of the underlying performance of our business. These measures may also be useful to investors in evaluating the underlying operating performance of our business. We regularly use these non-GAAP financial measures internally to

Table of Contents

understand, manage, and evaluate our business results and make operating decisions. We also measure our employees and compensate them, in part, based on such non-GAAP measures and use this information for our planning and forecasting activities. The presentation of these non-GAAP financial measures is not intended to be a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP and may be different from non-GAAP financial measures used by other companies, and therefore, may not be comparable among companies.

OVERVIEW

Bruker Corporation, together with its consolidated subsidiaries (Bruker or the Company), develops, manufactures and distributes high-performance scientific instruments and analytical and diagnostic solutions that enable its customers to explore life and materials at microscopic, molecular and cellular levels. Many of the Company's products are used to detect, measure and visualize structural characteristics of chemical, biological and industrial material samples. The Company's products address the rapidly evolving needs of a diverse array of customers in life science research, pharmaceuticals, biotechnology, applied markets, cell biology, clinical research, microbiology, in-vitro diagnostics, nanotechnology and materials science research.

Revenue for the three month period ended June 30, 2018 was \$443.7 million, an increase of \$28.8 million, or 6.9%, from the three month period ended June 30, 2017. Revenue from companies acquired within the past twelve months represented \$2.8 million, or 0.7%, of the increase, and the favorable foreign currency translation effect of a weaker U.S. dollar relative primarily to the Euro represented \$13.9 million, or 3.3%, of the increase. Excluding these effects, organic revenue, a non-GAAP measure, increased by \$12.1 million, or 2.9%. Revenues increased on an organic basis at all three groups within the BSI segment (Bruker BioSpin, Bruker CALID and Bruker NANO), which more than offset an organic revenue decline in the BEST segment. From a geographic perspective, revenues increased in Europe and the Asia Pacific region, while revenues in the Americas were down modestly on an organic basis due to the BEST segment decline.

Revenue for the six month period ended June 30, 2018 was \$875.4 million, an increase of \$75.6 million, or 9.5%, from the six month period ended June 30, 2017. Revenue from companies acquired within the past twelve months represented \$4.8 million, or 0.6%, of the increase, and the favorable foreign currency translation effect of a weaker U.S. dollar relative primarily to the Euro represented \$43.4 million, or 5.5%, of the increase. Excluding these effects, organic revenue, a non-GAAP measure, increased by \$27.4 million, or 3.4%. Continued growth at our Bruker CALID and Bruker Nano Groups within the BSI Segment, and more modest growth at Bruker BioSpin within the BSI segment, were offset in part by an organic revenue decline at our BEST Segment. Strong demand for mass spectrometry products in clinical microbiology markets as well as for academic and biopharmaceutical research applications, and continued demand for FT-IR and Raman products drove the CALID results. The primary drivers of growth within the Bruker Nano Group were strong demand in industrial research markets and higher shipments to semiconductor metrology customers. From a geographic perspective, for the six months ended June 30, 2018, organic revenue showed good growth in Europe and the Asia Pacific regions and a more modest increase in the Americas.

Our gross profit margin increased to 46.2% during the three months ended June 30, 2018 compared to 44.5% for the three months ended June 30, 2017. Our gross profit margin increased to 46.2% during the six months ended June 30, 2018 from 45.1% during the six months ended June 30, 2017. The increase in gross profit margin resulted primarily from growth in revenue, favorable business mix and the impact of operational improvements, partially offset by the negative impact of foreign currency translation.

Edgar Filing: BRUKER CORP - Form 10-Q

Our operating margin increased to 11.0% for the three months ended June 30, 2018 compared to 8.5% during the three months ended June 30, 2017. Our operating margin increased to 9.9% for the six months ended June 30, 2018 from 9.1% during the six months ended June 30, 2017. The operating margin expansion was primarily due to the favorable impact of higher volumes and operational improvements, partially offset by negative foreign currency translation.

The income tax provision in the three month periods ended June 30, 2018 and 2017 was \$11.8 million and \$6.2 million, respectively, representing effective tax rates of 27.3% and 20.5%, respectively. The increase in the Company's second quarter 2018 effective tax rate was primarily due to the unfavorable impact of non-recurring discrete items in the three month period ended June 30, 2018. The income tax provision in the six month periods ended June 30, 2018 and 2017 was \$20.2 million and \$16.1 million, respectively, representing effective tax rates of 25.5% and 26.1%, respectively. The slight decrease in the Company's first half 2018 effective tax rate was primarily due to the unfavorable impact of non-recurring discrete items in the six month period ended June 30, 2017.

Diluted earnings per share for the three month period ended June 30, 2018 were \$0.20, an increase of \$0.05 from the three month period ended June 30, 2017. Earnings per share increased from \$0.28 to \$0.37 per diluted share for the six months ended June 30, 2018 compared to the same period in 2017. The increase was primarily due to revenue growth, higher gross and operating profit and a lower number of shares outstanding resulting from our share repurchase activity in 2017.

Edgar Filing: BRUKER CORP - Form 10-Q

Table of Contents

Operating cash flow for the six month period ended June 30, 2018 was a source of cash of \$79.9 million. For the six month period ended June 30, 2017, our free cash flow, a non-GAAP measure, was \$62.4 million, calculated as follows:

		Six Months Ended June 30,	
		2018	2017
Net cash provided by operating activities	\$	79.9	\$ 15.4
Less: Purchases of property, plant and equipment		17.5	21.1
Free Cash Flow	\$	62.4	\$ (5.7)

In May 2017, our Board of Directors approved a share repurchase program (the Repurchase Program) that authorized repurchases of up to \$225.0 million of common stock. No repurchases occurred in the three and six months ended June 30, 2018. The remaining authorization under the Repurchase Program is \$72.8 million as of June 30, 2018.

We can experience quarter-to-quarter fluctuations in our operating results as a result of various factors, some of which are outside our control, such as:

- the timing of governmental stimulus programs and academic research budgets;
- the time it takes between the date customer orders and deposits are received, systems are shipped and accepted by our customers and full payment is received;
- the time it takes to satisfy local customs requirements and other export/import requirements;
- the time it takes for customers to construct or prepare their facilities for our products; and
- the time required to obtain governmental licenses.

These factors have in the past affected the amount and timing of revenue recognized on sales of our products and receipt of related payments 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with the 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

Edgar Filing: BRUKER CORP - Form 10-Q

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 and estimates to be both those most important to the portrayal of our financial position and results of operations and those that require the most estimation and subjective judgment:

- Revenue recognition;
- Income taxes;
- Inventories; 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, 2017. There were no significant changes to our critical accounting policies for the three and six months ended June 30, 2018, except as discussed below related to the adoption of ASC 606 (as defined below) as of January 1, 2018.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606). The key elements of ASC 606 are: 1) identifying a contract with the customer; 2) identifying the

Table of Contents

performance obligations in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognizing revenue when (or as) each performance obligation is satisfied.

We recognize revenue from systems sales upon transfer of control in an amount that reflects the consideration we expect to receive. Transfer of control generally occurs upon shipment, or for certain systems, based upon customer acceptance for a system once delivered and installed at a customer facility. For systems that include customer-specific acceptance criteria, the Company is required to assess when it can demonstrate the acceptance criteria has been met, which generally is upon successful factory acceptance testing or customer acceptance and evidence of installation. For systems that require installation and where system revenue is recognized upon shipment, the fair value of installation is deferred until customer acceptance.

When products are sold through an independent distributor or a strategic distribution partner, we recognize the system sale upon transfer of control which is typically on shipment. When we are responsible for installation, the fair value of installation is deferred until customer acceptance. Our distributors do not have price protection rights or rights of return; however, our products are typically warranted to be free from defect for a period of one year.

For contracts that include multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative standalone selling prices of the goods and services being provided to the customer. Our best evidence of standalone selling price is its normal selling pricing and discounting practices for the specific product or service when sold on a standalone basis. Alternatively, we may determine standalone selling price using an expected cost plus a margin approach.

We analyze our selling prices used in the allocation of the transaction price, at a minimum, on an annual basis. Selling prices will be analyzed more frequently if a significant change in our business or other factors necessitate more frequent analysis or we experience significant variances in our selling prices.

Revenue from accessories and parts is generally recognized based on shipment. Service revenue is recognized as the services are performed or ratably over the contractual obligation and includes maintenance contracts, extended warranties, training, application support and on-demand services.

For performance obligations recognized over time, revenue is measured by progress toward completion of the performance obligation that reflects the transfer of control. In particular, we have certain contracts recognized over time for which we apply the cost-to-cost method based on costs incurred to date relative to the total estimated costs for the contract upon completion. Application of the cost-to-cost method requires us to make reasonable estimates of the extent of progress toward completion and the total costs we will incur. Losses are recorded immediately when we estimate that contracts will ultimately result in a loss. Changes in the estimates could affect the timing of revenue recognition.

All taxes assessed by a governmental authority related to revenue producing transactions and collected by us from a customer are excluded from the determination of the transaction price.

Contract Assets and Liabilities

Contract assets represent unbilled receivables when revenue recognized exceeds the amount billed to the customer, and the right to payment is not just subject to the passage of time. Contract assets typically result from system revenue recorded where a portion of the transaction price is not billable until a future event, such as customer acceptance, or from contracts recognized on a cost-to-cost or cost-plus-fixed-fee basis as revenue exceeds the amount billed to the customer. Amounts may not exceed their net realizable value. Contract assets are generally classified as current.

Contract liabilities consist of customer advances, deferred revenue and billings in excess of revenue from contracts recognized on a cost-to-cost or cost-plus-fixed-fee basis. Contract liabilities are classified as current or long-term based on the timing of when the Company expects to recognize revenue. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2018 compared to the Three Months Ended June 30, 2017

Table of Contents**Consolidated Results**

The following table presents our results for the three months ended June 30, 2018 and 2017 (dollars in millions, except per share data):

	Three Months Ended June 30,	
	2018	2017
Product revenue	\$ 368.1	\$ 345.9
Service revenue	73.5	67.1
Other revenue	2.1	1.9
Total revenue	443.7	414.9
Cost of product revenue	188.7	191.5
Cost of service revenue	49.1	38.7
Cost of other revenue	0.7	0.2
Total cost of revenue	238.5	230.4
Gross profit	205.2	184.5
Operating expenses:		
Selling, general and administrative	110.6	102.5
Research and development	43.6	40.3
Other charges, net	2.2	6.4
Total operating expenses	156.4	149.2
Operating income	48.8	35.3
Interest and other income (expense), net	(5.5)	(5.1)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	43.3	30.2
Income tax provision	11.8	6.2
Consolidated net income	31.5	24.0
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.3	0.6
Net income attributable to Bruker Corporation	\$ 31.2	\$ 23.4
Net income per common share attributable to Bruker Corporation shareholders:		
Basic	\$ 0.20	\$ 0.15
Diluted	\$ 0.20	\$ 0.15
Weighted average common shares outstanding:		
Basic	156.1	159.5
Diluted	157.0	160.4

Revenue

For the three months ended June 30, 2018, our revenue increased \$28.8 million, or 6.9%, to \$443.7 million, compared to \$414.9 million for the comparable period in 2017. Included in revenue was an increase of approximately \$2.8 million from acquisitions and an increase of \$13.9 million from foreign currency translation. Excluding the effects of foreign currency translation and our recent acquisitions, our organic revenue, a non-GAAP measure, increased by \$12.1 million, or 2.9%.

Edgar Filing: BRUKER CORP - Form 10-Q

BSI Segment revenue increased by \$39.9 million, or 11.0%, to \$402.4 million for the three months ended June 30, 2018, compared to \$362.5 million for the three months ended June 30, 2017. BEST Segment revenue decreased by \$11.3 million, or 20.9%, to \$42.7 million for the three months ended June 30, 2018, compared to \$54.0 million for the three months ended June 30, 2017.

Please see the Segment Results section later in this section for additional discussion of our revenue.

Table of Contents

Gross Profit

Gross profit for the three months ended June 30, 2018 was \$205.2 million, or 46.2% of revenue, compared to \$184.5 million, or 44.5% of revenue, for the three months ended June 30, 2017. Included in gross profit were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and restructuring costs totaling \$6.2 million and \$9.9 million for the three months ended June 30, 2018 and 2017, respectively. Excluding these charges, our non-GAAP gross profit margins for the three months ended June 30, 2018 and 2017 were 47.6% and 46.9%, respectively. The increase in gross profit margin resulted primarily from growth in revenue, favorable business mix and the impact of operational improvements, partially offset by the unfavorable impact of foreign currency translation.

Selling, General and Administrative

Our selling, general and administrative expenses for the three months ended June 30, 2018 increased to \$110.6 million, or 24.9% of total revenue, from \$102.5 million, or 24.7% of total revenue, for the comparable period in 2017. The increase was caused primarily by foreign currency translation.

Research and Development

Our research and development expenses for the three months ended June 30, 2018 increased to \$43.6 million, or 9.8% of total revenue, from \$40.3 million, or 9.7% of total revenue, for the comparable period in 2017. The increase was caused primarily by foreign currency translation.

Other Charges, Net

Other charges, net of \$2.2 million recorded for the three months ended June 30, 2018 were primarily related to the BSI Segment and consisted of \$0.6 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$0.6 million related to professional fees, \$0.9 million of costs associated with our global information technology (IT) transformation initiative and \$0.1 million of acquisition-related charges related to acquisitions completed in 2018 and 2017. The IT transformation initiative is a multi-year project aimed at updating and integrating our global enterprise resource planning and human resource information systems.

Other charges, net of \$6.4 million recorded for the three months ended June 30, 2017 were primarily related to the BSI Segment and consisted primarily of \$2.4 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$0.9 million of costs associated with our global IT transformation initiative and \$2.9 million of acquisition-related charges related to acquisitions completed in 2016 and 2017.

Operating Income

Operating income for the three months ended June 30, 2018 was \$48.8 million, resulting in an operating margin of 11.0%, compared to operating income of \$35.3 million, and an operating margin of 8.5%, for the three months ended June 30, 2017. Included in operating income were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and restructuring costs totaling \$10.1 million and \$18.2 million for the three months ended June 30, 2018 and 2017, respectively. Excluding these charges, our non-GAAP operating margins for the three months ended June 30, 2018 and 2017 were 13.3% and 12.9%, respectively. The operating margin expansion was primarily due to the favorable impact of higher volumes and operational improvements, offset in part by unfavorable foreign currency translation.

Interest and Other Income (Expense), Net

Interest and other income (expense), net during the three months ended June 30, 2018 was an expense of \$5.5 million compared to an expense of \$5.1 million for the comparable period of 2017.

During the three months ended June 30, 2018, the primary components within interest and other income (expense), net were net interest expense of \$2.6 million, realized and unrealized losses on foreign currency denominated transactions of \$1.5 million and \$1.3 million related to pension plan expenses. During the three months ended June 30, 2017, the primary component within interest and other income (expense), net was net interest expense of \$3.8 million and realized and unrealized losses on foreign currency denominated transactions of \$1.9 million and \$1.8 related to pension plan expenses. These effects were offset in part by an insurance settlement of \$2.4 million.

Table of Contents

Income Tax (Benefit) Provision

The 2018 and 2017 effective tax rates were estimated using projected annual pre-tax income on a jurisdictional basis. Expected tax benefits, including tax credits and incentives, the impact of changes to valuation allowances and the effect of jurisdictional differences in statutory tax rates were also considered in the calculation.

The income tax provision for the three months ended June 30, 2018 and 2017 was \$11.8 million and \$6.2 million, respectively, representing effective tax rates of 27.3% and 20.5% respectively. The increase in the Company's second quarter 2018 effective tax rate was primarily due to the unfavorable impact of non-recurring discrete items in the three month period ended June 30, 2018.

The majority of the Company's earnings are derived in Germany and Switzerland. Accounting for the various federal and local taxing authorities, the statutory rates for 2018 are approximately 30.0% and 20.0% for Germany and Switzerland, respectively. The mix of earnings in those two jurisdictions resulted in an increase of 4.0% from the U.S. statutory rate of 21.0% in the three months ended June 30, 2018. The Company has not been a party to any tax holiday agreements.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three months ended June 30, 2018 and 2017 was \$0.3 million and \$0.6 million, respectively. The net income attributable to noncontrolling interests represented the minority shareholders' proportionate share of the net income recorded by our majority-owned subsidiaries.

Net Income Attributable to Bruker Corporation

Our net income for the three months ended June 30, 2018 was \$31.2 million, or \$0.20 per diluted share, compared to \$23.4 million, or \$0.15 per diluted share, for the comparable period in 2017. The increase in net income was primarily the result of the increase in revenue, gross profit and operating profit.

Segment Results

For financial reporting purposes, we aggregate the Bruker BioSpin, Bruker CALID and Bruker Nano operating segments into the Bruker Scientific Instruments (BSI) reportable segment, which represented approximately 90.7% of the Company's revenues during the three months ended June 30, 2018. This aggregation reflects these operating segments' similar economic characteristics, production processes, service offerings, types and classes of customers, methods of distribution and regulatory environments. Our BEST Segment is our other reportable segment and represents the remainder of our revenues.

Revenue

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

	Three Months Ended June 30,				Dollar Change	Percentage Change
	2018		2017			
BSI	\$	402.4	\$	362.5	\$ 39.9	11.0%
BEST		42.7		54.0	(11.3)	(20.9)%
Eliminations (a)		(1.4)		(1.6)	0.2	
	\$	443.7	\$	414.9	\$ 28.8	6.9%

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

BSI Segment Revenue

BSI Segment revenue increased by \$39.9 million, or 11.0%, to \$402.4 million for the three months ended June 30, 2018, compared to \$362.5 million for the three months ended June 30, 2017. Revenue includes approximately \$2.8 million attributable to recent acquisitions and approximately \$11.5 million from the favorable impact of foreign currency translation. Excluding the effects of foreign currency translation and our recent acquisitions, organic revenue, a non-GAAP measure, increased by \$25.6 million, or 7.1%.

Edgar Filing: BRUKER CORP - Form 10-Q

Table of Contents

The Bruker BioSpin Group revenue increased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to higher shipments of nuclear magnetic resonance products and growth in the service business. The positive effect of foreign currency translation also increased revenue during the period.

The Bruker CALID Group revenue increased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017, as a result of continued demand for mass spectrometry instruments from academic and biopharmaceutical customers, strong growth of mass spectrometry products, consumables and services in clinical microbiology markets and demand for Fourier transform-infrared spectroscopy (FT-IR) and Raman products in academic, applied and industrial markets. Favorable foreign currency translation also had a positive impact.

The Bruker Nano Group revenue increased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily as a result of higher revenues from industrial and academic research customers, increased shipments to semiconductor customers and favorable foreign currency translation.

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

	Three Months Ended June 30,			
	2018		2017	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue
System revenue	\$ 287.3	71.4%	\$ 260.4	71.8%
Aftermarket revenue	115.1	28.6%	102.1	28.2%
Total revenue	\$ 402.4	100.0%	\$ 362.5	100.0%

BEST Segment Revenue

BEST Segment revenue decreased \$11.3 million, or 20.9%, to \$42.7 million for the three months ended June 30, 2018, compared to \$54.0 million for the comparable period in 2017. The decrease in revenue resulted primarily from the timing of deliveries and projects against unusually high BEST revenue results in the prior year quarter.

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

	Three Months Ended June 30,			
	2018		2017	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue
System and wire revenue	\$ 41.8	97.9%	\$ 53.3	98.7%
Aftermarket revenue	0.9	2.1%	0.7	1.3%

Edgar Filing: BRUKER CORP - Form 10-Q

Total revenue	\$	42.7	100.0%	\$	54.0	100.0%
---------------	----	------	--------	----	------	--------

Gross Profit and Operating Expenses

For the three months ended June 30, 2018, gross profit margin in the BSI Segment increased to 49.4% from 48.5% compared to the three months ended June 30, 2017. BEST Segment gross margin remained flat at 15.9% for the three months ended June 30, 2018 and 2017.

In the three months ended June 30, 2018, selling, general and administrative expenses and research and development expenses in the BSI Segment increased to \$149.1 million, or 37.1% of segment revenue, from \$137.7 million, or 38.0% of segment revenue. The increase was caused primarily by foreign currency translation.

Table of Contents

Selling, general and administrative expenses and research and development expenses in the BEST Segment were \$5.1 million, or 11.9% of segment revenue, compared to \$5.1 million, or 9.4% of segment revenue, for the comparable period in 2017. The increase as a percent of revenue was primarily a result of lower revenues in the three months ended June 30, 2018.

Operating Income

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

	2018		Three Months Ended June 30,		2017	
	Operating Income	Percentage of Segment Revenue	Operating Income	Percentage of Segment Revenue	Operating Income	Percentage of Segment Revenue
BSI	\$ 47.2	11.7%	\$ 32.3	8.9%		
BEST	1.7	4.0%	3.0	5.6%		
Corporate, eliminations and other (a)	(0.1)					
Total operating income	\$ 48.8	11.0%	\$ 35.3	8.5%		

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

BSI Segment operating income for the three months ended June 30, 2018 was \$47.2 million, resulting in an operating margin of 11.7%, compared to operating income of \$32.3 million, resulting in an operating margin of 8.9%, for the comparable period in 2017. Operating income included \$9.9 million and \$16.3 million for the three months ended June 30, 2018 and 2017, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, restructuring costs and costs associated with our global IT transformation initiative. Excluding these charges, non-GAAP operating margins were 14.2% and 13.4% for the three months ended June 30, 2018 and 2017, respectively. GAAP and non-GAAP operating margin increases were primarily due to the favorable impact of higher volumes and operational improvements, which offset the impact of negative foreign currency translation.

BEST Segment operating income decreased for the three months ended June 30, 2018 to \$1.7 million, resulting in an operating margin of 4.0%, compared to an operating income of \$3.0 million, resulting in an operating margin of 5.6%, for the comparable period in 2017. Operating income included \$0.2 million and \$1.9 million for the three months ended June 30, 2018 and 2017, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and restructuring costs. Excluding these charges, non-GAAP operating margins were 4.4% and 9.1% for the three months ended June 30, 2018 and 2017, respectively. GAAP and non-GAAP operating margins decreased primarily due to lower revenues, the timing of engineering project completions and a less profitable mix of product and projects delivered. These factors were partially offset by reduced production and operating costs.

Six Months Ended June 30, 2018 compared to the Six Months Ended June 30, 2017

Consolidated Results

The following table presents our results for the six months ended June 30, 2018 and 2017 (dollars in millions, except per share data):

Edgar Filing: BRUKER CORP - Form 10-Q

Table of Contents

	Six Months Ended June 30,			
	2018		2017	
Product revenue	\$	720.3	\$	664.8
Service revenue		151.2		130.4
Other revenue		3.9		4.6
Total revenue		875.4		799.8
Cost of product revenue		374.3		364.2
Cost of service revenue		95.6		74.4
Cost of other revenue		0.9		0.3
Total cost of revenue		470.8		438.9
Gross profit		404.6		360.9
Operating expenses:				
Selling, general and administrative		220.9		200.6
Research and development		86.8		77.9
Other charges, net		10.0		9.5
Total operating expenses		317.7		288.0
Operating income		86.9		72.9
Interest and other income (expense), net		(7.8)		(11.1)
Income before income taxes and noncontrolling interest in consolidated subsidiaries		79.1		61.8
Income tax provision		20.2		16.1
Consolidated net income		58.9		45.7
Net income attributable to noncontrolling interest in consolidated subsidiaries		0.7		0.7
Net income attributable to Bruker Corporation	\$	58.2	\$	45.0
Net income per common share attributable to Bruker Corporation shareholders:				
Basic	\$	0.37	\$	0.28
Diluted	\$	0.37	\$	0.28
Weighted average common shares outstanding:				
Basic		156.0		159.6
Diluted		157.0		160.4

Revenue

For the six months ended June 30, 2018, our revenue increased \$75.6 million, or 9.5%, to \$875.4 million, compared to \$799.8 million for the comparable period in 2017. Included in revenue was an increase of approximately \$4.8 million from acquisitions and a \$43.4 million increase caused by foreign currency translation. Excluding the effects of foreign currency translation and our recent acquisitions, our organic revenue, a non-GAAP measure, increased by \$27.4 million, or 3.4%.

BSI Segment revenue increased by \$80.5 million, or 11.4%, to \$789.4 million for the six months ended June 30, 2018, compared to \$708.9 million for the six months ended June 30, 2017. BEST Segment revenue decreased by \$5.8 million, or 6.2%, to \$88.3 million for the six months ended June 30, 2018, compared to \$94.1 million for the six months ended June 30, 2017.

Please see the Segment Results section later in this section for additional discussion of our revenue.

Gross Profit

Gross profit for the six months ended June 30, 2018 was \$404.6 million, or 46.2% of revenue, compared to \$360.9 million, or 45.1% of revenue, for the six months ended June 30, 2017. Included in gross profit were various charges for amortization of

Table of Contents

acquisition-related intangible assets and other acquisition-related costs and restructuring costs totaling \$11.8 million and \$16.9 million for the six months ended June 30, 2018 and 2017, respectively. Excluding these charges, our non-GAAP gross profit margins for the six months ended June 30, 2018 and 2017 were 47.6% and 47.2%, respectively. The increase in gross profit margin resulted primarily from growth in revenue, favorable business mix and the impact of operational improvements, partially offset by a negative impact from foreign currency translation.

Selling, General and Administrative

Our selling, general and administrative expenses for the six months ended June 30, 2018 increased to \$220.9 million, or 25.2% of total revenue, from \$200.6 million, or 25.1% of total revenue, for the comparable period in 2017. The increase was caused primarily by foreign currency translation.

Research and Development

Our research and development expenses for the six months ended June 30, 2018 increased to \$86.8 million, or 9.9% of total revenue, from \$77.9 million, or 9.7% of total revenue, for the comparable period in 2017. The increase was caused primarily by foreign currency translation.

Other Charges, Net

Other charges, net of \$10.0 million recorded for the six months ended June 30, 2018 were primarily related to the BSI Segment and consisted of \$3.9 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$2.6 million related to professional fees, \$2.4 million of costs associated with our global IT transformation initiative and \$1.1 million of acquisition-related charges related to acquisitions completed in 2018 and 2017.

Other charges, net of \$9.5 million recorded for the six months ended June 30, 2017 were primarily related to the BSI Segment and consisted of \$3.9 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, \$2.1 million of costs associated with our global IT transformation initiative and \$3.3 million of acquisition-related charges related to acquisitions completed in 2016 and 2017.

Operating Income

Operating income for the six months ended June 30, 2018 was \$86.9 million, resulting in an operating margin of 9.9%, compared to operating income of \$72.9 million, and an operating margin of 9.1%, for the six months ended June 30, 2017. The increase in our GAAP operating margin resulted primarily from higher revenue, volume and operational improvements, partially offset by negative foreign currency translation. Included in operating income were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and

Edgar Filing: BRUKER CORP - Form 10-Q

restructuring costs totaling \$24.9 million and \$29.8 million for the six months ended June 30, 2018 and 2017, respectively. Excluding these charges, our non-GAAP operating margins in each of the six months ended June 30, 2018 and 2017 were 12.8%, as operational improvements were offset primarily by the negative impact of foreign currency translation.

Interest and Other Income (Expense), Net

Interest and other income (expense), net during the six months ended June 30, 2018 was an expense of \$7.8 million compared to an expense of \$11.1 million for the comparable period of 2017.

During the six months ended June 30, 2018, the primary components within interest and other income (expense), net were net interest expense of \$6.0 million, realized and unrealized losses on foreign currency denominated transactions of \$1.0 million and \$1.3 million related to pension plan expenses. During the six months ended June 30, 2017, the primary component within interest and other income (expense), net was net interest expense of \$7.5 million, realized and unrealized losses on foreign currency denominated transactions of \$4.2 million and \$1.8 million of pension plan expenses. These effects were offset in part by an insurance settlement of \$2.4 million.

Income Tax (Benefit) Provision

The 2018 and 2017 effective tax rates were estimated using projected annual pre-tax income on a jurisdictional basis. Expected tax benefits, including tax credits and incentives, the impact of changes to valuation allowances and the effect of jurisdictional differences in statutory tax rates were also considered in the calculation.

Table of Contents

The income tax provision for the six months ended June 30, 2018 and 2017 was \$20.2 million and \$16.1 million, respectively, representing effective tax rates of 25.5% and 26.1% respectively. The slight decrease in the Company's first half 2018 effective tax rate was primarily due to the unfavorable impact of non-recurring discrete items in the six month period ended June 30, 2017.

The majority of the Company's earnings are derived in Germany and Switzerland. Accounting for the various federal and local taxing authorities, the statutory rates for 2018 are approximately 30.0% and 20.0% for Germany and Switzerland, respectively. The mix of earnings in those two jurisdictions resulted in an increase of 4.0% from the U.S. statutory rate of 21.0% in the six months ended June 30, 2018. The Company has not been a party to any tax holiday agreements.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests in each of the six months ended June 30, 2018 and 2017 was \$0.7 million. The net income attributable to noncontrolling interests represented the minority shareholders' proportionate share of the net income recorded by our majority-owned subsidiaries.

Net Income Attributable to Bruker Corporation

Our net income for the six months ended June 30, 2018 was \$58.2 million, or \$0.37 per diluted share, compared to \$45.0 million, or \$0.28 per diluted share, for the comparable period in 2017. The increase in net income was primarily the result of the increase in revenue and higher gross and operating profit.

Segment Results

For financial reporting purposes, we aggregate the Bruker BioSpin, Bruker CALID and Bruker Nano operating segments into the Bruker Scientific Instruments (BSI) reportable segment, which represented approximately 90.2% of the Company's revenues during the six months ended June 30, 2018. This aggregation reflects these operating segments' similar economic characteristics, production processes, service offerings, types and classes of customers, methods of distribution and regulatory environments. Our BEST Segment is our other reportable segment and represents the remainder of our revenues.

Revenue

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

Edgar Filing: BRUKER CORP - Form 10-Q

	Six Months Ended June 30,				Dollar Change		Percentage Change
	2018		2017				
BSI	\$	789.4	\$	708.9	\$	80.5	11.4%
BEST		88.3		94.1		(5.8)	(6.2)%
Eliminations (a)		(2.3)		(3.2)		0.9	
	\$	875.4	\$	799.8	\$	75.6	9.5%

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

BSI Segment Revenue

BSI Segment revenue increased by \$80.5 million, or 11.4%, to \$789.4 million for the six months ended June 30, 2018, compared to \$708.9 million for the six months ended June 30, 2017. Revenue includes approximately \$4.8 million attributable to recent acquisitions and approximately \$36.8 million from the favorable impact of foreign currency translation. Excluding the effects of foreign currency translation and our recent acquisitions, organic revenue, a non-GAAP measure, increased by \$38.9 million, or 5.5%.

The Bruker BioSpin Group revenue increased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 due to higher shipments of preclinical imaging products and growth in the service business. Favorable foreign currency translation also had a positive impact.

Table of Contents

The Bruker CALID Group revenue increased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 as a result of increased demand for mass spectrometry instruments in academic and biopharmaceutical research, strong growth of mass spectrometry products, consumables and services in clinical microbiology markets and demand for FT-IR and Raman products in academic, applied and industrial markets. Favorable foreign currency translation also had a positive impact.

The Bruker Nano Group revenue increased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily as a result of higher industrial research revenues, increased shipments to semiconductor customers and favorable foreign currency translation.

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

	2018		Six Months Ended June 30,		2017	Percentage of Segment Revenue
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue	Revenue	
System revenue	\$ 561.8	71.2%	\$ 505.6	71.3%		
Aftermarket revenue	227.6	28.8%	203.3	28.7%		
Total revenue	\$ 789.4	100.0%	\$ 708.9	100.0%		

BEST Segment Revenue

BEST Segment revenue decreased \$5.8 million, or 6.2%, to \$88.3 million for the six months ended June 30, 2018, compared to \$94.1 million for the comparable period in 2017. The decrease in revenue resulted primarily from lower product deliveries and from the timing and mix of projects compared to the three months ended June 30, 2017.

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

	2018		Six Months Ended June 30,		2017	Percentage of Segment Revenue
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue	Revenue	
System and wire revenue	\$ 86.2	97.6%	\$ 92.4	98.2%		
Aftermarket revenue	2.1	2.4%	1.7	1.8%		
Total revenue	\$ 88.3	100.0%	\$ 94.1	100.0%		

Gross Profit and Operating Expenses

Edgar Filing: BRUKER CORP - Form 10-Q

For the six months ended June 30, 2018, gross profit margin in the BSI Segment increased to 49.4% from 49.0% compared to the six months ended June 30, 2017. BEST Segment gross margin increased to 16.2% from 14.5% for the comparable period in 2017 due to certain operational improvements and favorable changes in foreign currency translation.

In the six months ended June 30, 2018, selling, general and administrative expenses and research and development expenses in the BSI Segment were \$297.4 million, or 37.7% of segment revenue, compared to \$268.3 million, or 37.8% of segment revenue.

Selling, general and administrative expenses and research and development expenses in the BEST Segment increased to \$10.3 million, or 11.7% of segment revenue, from \$10.2 million, or 10.8% of segment revenue, for the comparable period in 2017. The increase as a percent of revenue was primarily a result of decreased revenue in the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Table of Contents**Operating Income**

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

	Six Months Ended June 30,			
	2018		2017	
	Operating Income	Percentage of Segment Revenue	Operating Income	Percentage of Segment Revenue
BSI	\$ 82.9	10.5%	\$ 70.4	9.9%
BEST	3.9	4.4%	2.5	2.7%
Corporate, eliminations and other (a)	0.1			
Total operating income	\$ 86.9	9.9%	\$ 72.9	9.1%

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

BSI Segment operating income for the six months ended June 30, 2018 was \$82.9 million, resulting in an operating margin of 10.5%, compared to operating income of \$70.4 million, resulting in an operating margin of 9.9%, for the comparable period in 2017. The operating margin expansion was primarily due to the favorable impact of higher volumes and operational improvements, partially offset by negative foreign currency translation. Operating income included \$24.6 million and \$25.7 million for the six months ended June 30, 2018 and 2017, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, restructuring costs and costs associated with our global IT transformation initiative. Excluding these charges, non-GAAP operating margins were 13.6% in each of the six months ended June 30, 2018 and 2017, respectively as operational improvements were offset primarily by the negative impact of foreign currency translation.

BEST Segment operating income increased for the six months ended June 30, 2018 to \$3.9 million, resulting in an operating margin of 4.4%, compared to an operating income of \$2.5 million, resulting in an operating margin of 2.7%, for the comparable period in 2017. GAAP operating margins increased due to reduced production and operating costs. Operating income included \$0.3 million and \$4.1 million for the six months ended June 30, 2018 and 2017, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and restructuring costs. Excluding these charges, non-GAAP operating margins were 4.8% and 7.0% for the six months ended June 30, 2018 and 2017, respectively. Non-GAAP operating margins decreased primarily due to lower revenues, the timing of engineering project completions and a less profitable mix of product and projects delivered. These factors were offset in part by reduced production and operating costs.

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 beyond the issuance date of this Quarterly Report on Form 10-Q. Our future cash requirements could be affected by acquisitions that we may complete, repurchases of our common stock, or the payment of dividends in the future. Historically, we have financed our growth and liquidity needs 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 six months ended June 30, 2018, net cash provided by operating activities was \$79.9 million, resulting from consolidated net income adjusted for non-cash items of \$113.6 million, partially offset by an increase in operating assets and liabilities, net of acquisitions and divestitures of \$33.7 million. The increase in operating assets and liabilities, net of acquisitions and divestitures for the six months ended June 30, 2018 was primarily caused by cash received for accounts receivables.

During the six months ended June 30, 2017, net cash provided by operating activities was \$15.4 million, resulting from consolidated net income adjusted for non-cash items of \$81.7 million, partially offset by an increase in operating assets and liabilities, net of acquisitions and divestitures of \$66.3 million. The increase in operating assets and liabilities, net of acquisitions and divestitures for the six months ended June 30, 2017 was primarily caused by an increase in inventory for

Table of Contents

orders in 2017, partially offset by a decrease in customer advances based on timing of receipts.

During the six months ended June 30, 2018, net cash provided by investing activities was \$62.0 million, compared to net cash used in investing activities of \$122.0 million during the six months ended June 30, 2017. Cash provided by investing activities during the six months ended June 30, 2018 was primarily caused by the maturities of short-term investments of \$117.0 million, offset by the cash paid for acquisitions of \$37.6 million and net purchases of property, plant and equipment of \$17.4 million. Cash used in investing activities during the six months ended June 30, 2017 was primarily caused by the cash paid for acquisitions, net of cash acquired, of \$58.7 million; net activity of purchases and maturities of short-term investments of \$49.1 million; and purchases of property, plant and equipment, net of proceeds from the sale of property, plant and equipment, of \$14.2 million.

During the six months ended June 30, 2018, net cash used in financing activities was \$203.6 million, compared to net cash used in financing activities of \$30.6 million during the six months ended June 30, 2017. Net cash used in financing activities during the six months ended June 30, 2018 was primarily attributable to repayment of \$202.5 million of borrowings under the 2015 Credit Agreement, defined below; and \$12.5 million used for the payment of dividends. This was offset by \$7.5 million in proceeds from borrowings under the 2015 Credit Agreement, defined below; and \$7.0 million of proceeds from the issuance of common stock, net. Net cash used in financing activities during the six months ended June 30, 2017 was primarily attributable to repayment of \$40.0 million of borrowings under the 2015 Credit Agreement, defined below; repayment of \$20.0 million of Senior Notes, defined below; \$41.7 million for the repurchase of our common stock; and \$12.8 million used for the payment of dividends. These effects were offset in part by borrowings of \$79.0 million under the 2015 Credit Agreement and \$9.2 million proceeds from the issuance of common stock, net.

In May 2017, our Board of Directors approved a share repurchase program (the Repurchase Program) under which repurchases of common stock in the amount of up to \$225.0 million were authorized to occur from time to time, in amounts, at prices, and at such times as we deem appropriate, subject to market conditions, legal requirements and other considerations. No repurchases occurred under this Repurchase Program in the six months ended June 30, 2018. The remaining authorization as of August 6, 2018 is \$72.8 million. We intend to fund any additional repurchases from cash on hand, future cash flows from operations and available borrowings under our revolving credit facility.

The repurchased shares are reflected within Treasury stock in the accompanying consolidated balance sheet at June 30, 2018.

Cash, cash equivalents and short-term investments at June 30, 2018 and December 31, 2017 totaled \$258.7 million and \$439.2 million, respectively, of which \$229.6 million and \$405.8 million, respectively, related to foreign cash and short-term investments, most significantly in the Netherlands and Switzerland.

At December 31, 2017 and in accordance with the 2017 Tax Act, we recorded state and foreign withholding taxes, as well as subsequent foreign currency translations on these withholding taxes as they are an obligation of the parent company, on the cash and liquid assets portion of the unremitted earnings and profits (E&P) of foreign subsidiaries expected to be repatriated from our foreign subsidiaries to the United States. We continue to be indefinitely reinvested in the amount of \$740.0 million of non-cash E&P that is subject to the 2017 Tax Act deemed repatriation. If this E&P is ultimately distributed to the United States in the form of dividends or otherwise we would likely be subject to additional withholding tax. We will continue to evaluate our assertions on the cumulative historical outside basis differences in our foreign subsidiaries as of December 31, 2017. We expect to finalize this analysis and accounting related to the toll charge and any remaining outside basis differences in our foreign subsidiaries during the measurement period. We estimate the amount of unrecognized deferred withholding taxes on the undistributed E&P to be approximately \$27.0 million at December 31, 2017.

As of June 30, 2018, we had approximately \$23.2 million of net operating loss carryforwards available to reduce state taxable income; approximately \$79.4 million of net operating losses available to reduce German federal income and trade taxes that are carried forward indefinitely; \$4.1 million of other foreign net operating losses available that are carried forward indefinitely and \$10.2 million of other foreign net operating losses that are expected to expire at various times beginning in 2019. We also had U.S. state research and development tax credits of \$7.5 million. Utilization of these credits and state net operating losses may be subject to annual limitations due to the ownership percentage change limitations provided by the Internal Revenue Code Section 382 and similar state provisions. In the event of a deemed change in control under Internal Revenue Code Section 382, an annual limitation on the utilization of net operating losses and credits may result in the expiration of all or a portion of the net operating loss and credit carryforwards.

At June 30, 2018, we had outstanding debt totaling \$220.6 million, consisting of \$220.0 million outstanding under the

Table of Contents

Note Purchase Agreement described below; and \$1.2 million under capital lease obligations and other loans. These amounts were offset by unamortized debt issuance costs under the Note Purchase Agreement of \$0.6 million. At December 31, 2017, we had outstanding debt totaling \$415.6 million, consisting of \$220.0 million outstanding under the Note Purchase Agreement; \$195.0 million outstanding under the revolving credit line component of the prior credit agreement; and \$1.3 million under capital lease obligations and other loans. These amounts were offset by unamortized debt issuance costs under the Note Purchase Agreement of \$0.7 million.

The following is a summary of the maximum commitments and the net amounts available to us under the 2015 Credit Agreement and other lines of credit with various financial institutions located primarily in Germany and Switzerland that are unsecured and typically due upon demand with interest payable monthly, at June 30, 2018 (in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Letters of Credit	Total Amount Available
2015 Credit Agreement	0.0%	\$ 500.0	\$	\$ 1.1	\$ 498.9
Other lines of credit		250.5		123.4	127.1
Total revolving lines of credit		\$ 750.5	\$	\$ 124.5	\$ 626.0

On October 27, 2015, we entered into a revolving credit agreement, referred to as the 2015 Credit Agreement, and terminated the prior credit agreement. The 2015 Credit Agreement provides a maximum commitment on the revolving credit line of \$500.0 million and a maturity date of October 2020. Borrowings under the revolving credit line of the 2015 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%, plus margins ranging from 0.00% to 0.30% or (b) LIBOR, plus margins ranging from 0.90% to 1.30%. There is also a facility fee ranging from 0.10% to 0.20%.

Borrowings under the 2015 Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the 2015 Credit Agreement. The 2015 Credit Agreement also requires us to maintain certain financial ratios related to maximum leverage and minimum interest coverage. Specifically, our leverage ratio cannot exceed 3.5 and our interest coverage ratio cannot be less than 2.5. In addition to the financial ratios, the 2015 Credit Agreement contains negative covenants, including among others, restrictions on liens, indebtedness of the Company and its subsidiaries, asset sales, dividends and transactions with affiliates. Failure to comply with any of these restrictions or covenants may result in an event of default on the 2015 Credit Agreement, which could permit acceleration of the debt and require us to prepay the debt before its scheduled due date. As of June 30, 2018, the borrowings under the 2015 Credit Agreement has been repaid in full.

As of June 30, 2018, we were in compliance with the covenants, as defined by both the 2015 Credit Agreement and the Note Purchase Agreement, as our leverage ratio was 0.66 and our interest coverage ratio was 18.1.

In January 2012, we 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, 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.

On January 18, 2017, the outstanding \$20.0 million principal amount of Tranche A of the Senior Notes was repaid in accordance with the terms of the Note Purchase Agreement.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net*

Table of Contents

Periodic Postretirement Benefit Cost. This new standard intends to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new standard requires the service cost component of net periodic cost be reported in the same line item(s) as other employee compensation costs and all other components of the net periodic cost be reported in the condensed consolidated statements of income and comprehensive income (loss) below operating income. We adopted this guidance on January 1, 2018 on a retrospective basis. We reclassified the non-service pension cost previously reported in operations of \$1.8 million for the three and six months ended June 30, 2017. The impact of this for the three and six months ended June 30, 2018 was \$1.3 million. These amounts were previously reported in cost of sales, selling, general, and administrative, and research and development expenses in the unaudited condensed consolidated statements of income and comprehensive income (loss).

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new standard simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. This ASU will be applied prospectively and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on our financial position, results of operations or statements of cash flows upon adoption.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard was adopted as of the effective date of January 1, 2018. We have evaluated the provisions of this standard and have determined that the impact of adoption of ASU No. 2017-01 was not material to our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740) Intra-Entity Transfer of Assets Other than Inventory*. The new standard requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from existing U.S. GAAP which prohibits recognition of current and deferred income taxes until the asset is sold to a third party. This new standard was adopted as of the effective date of January 1, 2018. We have evaluated the provisions of this standard and have determined that the impact of adoption of ASU No. 2016-16 was not material to our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes present U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures. The new standard is effective for us as of January 1, 2019, and early adoption is permitted. We currently expect to adopt the new standard as of January 1, 2019. We are continuing to evaluate the provisions of the new standard, but currently expect it will have a material impact on our consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities for substantially all leases currently accounted for as operating leases.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Edgar Filing: BRUKER CORP - Form 10-Q

We are potentially exposed to market risks associated with changes in foreign currency, 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 currency 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, reducing 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

Table of Contents

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. For example, if the U.S. Dollar further strengthened against the Japanese Yen, our Japanese-based competitors would have a greater pricing advantage over us.

Changes in foreign currency translation rates increased our revenue by 5.5% for the six months ended June 30, 2018 and decreased our revenue by approximately 1.8% for the six months ended June 30, 2017.

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 six months ended June 30, 2018 and 2017, we recorded net gains from currency translation adjustments of \$14.6 million and \$65.1 million, respectively. Gains and losses resulting from foreign currency transactions are reported in interest and other income (expense), net in the unaudited condensed consolidated statements of income and comprehensive income (loss). Our foreign exchange losses, net were \$1.0 million and \$4.2 million, for the six month periods ended June 30, 2018 and 2017, respectively.

From time to time, we have entered into foreign exchange contracts designed to minimize the volatility that fluctuations in foreign currency 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 unaudited condensed consolidated statements of income and comprehensive income (loss). At June 30, 2018 and December 31, 2017, we had foreign exchange contracts with notional amounts aggregating \$109.6 million and \$84.2 million, respectively. We will continue to evaluate our currency risks and in the future may utilize foreign currency contracts more frequently.

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 fixed rate debt, which limits our exposure to adverse movements in interest rates.

Impact of Commodity Prices

Edgar Filing: BRUKER CORP - Form 10-Q

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 June 30, 2018 and December 31, 2017, we had fixed price commodity contracts with notional amounts aggregating \$6.8 million and \$3.0 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 (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) 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

Table of Contents

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 June 30, 2018. Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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 June 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits, claims, and proceedings, including, but not limited to, patent and commercial matters, which arise in the ordinary course of business. There are no such matters pending that we currently believe are reasonably possible of having a material impact on our business or to our consolidated financial statements.

In addition, from time to time, the Company is the subject of investigations by national, state and local government agencies in the United States and other countries in which it operates, involving, among other things, regulatory, financial reporting, marketing and other business practices. These governmental investigations may result in the commencement of civil and criminal proceedings, fines, penalties and administrative remedies and may have a material adverse effect on our financial position, results of operations and/or business.

On October 19, 2017, we received a notice of investigation and subpoena to produce documents from the Division of Enforcement of the SEC. The subpoena seeks information related to an employee terminated as part of a restructuring and certain matters involving the Company's policies and accounting practices related to revenue recognition and restructuring activities, as well as related financial reporting, disclosure and compliance matters, since January 1, 2013. The subpoena also seeks information concerning, among other things, the Company's previously identified material weakness in internal controls over the accounting for income taxes, related financial reporting matters and certain payments for non-employee travel expenses. The Company is producing documents in response to the subpoena and intends to continue to cooperate fully with the SEC's investigation. Additionally, the Audit Committee of the Company's Board of Directors, with the assistance of outside counsel, is conducting an internal investigation into practices of certain business partners in China and into the conduct of former employees of the Bruker Optics division in China that raised questions of compliance with laws, including the U.S. Foreign Corrupt Practices Act, and/or compliance with our business policies and code of conduct. The Company has voluntarily disclosed this matter to the SEC and U.S. Department of Justice. At this time, we are unable to predict the duration, scope or outcome of these investigations.

ITEM 1A. RISK FACTORS

Edgar Filing: BRUKER CORP - Form 10-Q

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, 2017, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on 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, 2017.

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

In May 2017, the Company's Board of Directors approved and the Company announced a share repurchase program (the Repurchase Program) under which repurchases of the Company's common stock of up to \$225.0 million may occur from time to time, in amounts, at prices, and at such times as the Company deems appropriate, subject to market conditions, legal requirements and other considerations. No repurchases under this program occurred in the three and six months ended June 30, 2018. As of June 30, 2018, shares of common stock with an aggregate cost of approximately \$152.2 million have been repurchased. Any future repurchases will be funded from cash on hand, future cash flows from operations and available borrowings under the revolving credit facility. The remaining authorization under the Repurchase Program is \$72.8 million as of August 6, 2018. The Repurchase Program expires May 11, 2019 and can be suspended, modified or terminated at any time without prior notice.

Table of Contents

The following table sets forth all purchases made by or on behalf of the Company or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of our common stock during each month in the second quarter of 2018.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares (or approximate dollar value) that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30, 2018		\$		\$ 72,828,939
May 1 - May 31, 2018	1,384	30.50		72,828,939
June 1 - June 30, 2018	1,384	\$ 30.50		72,828,939

(1) Includes 1,384 shares surrendered by participants under our long-term incentive plans to pay taxes upon vesting of restricted stock awards.

(2) There was no share repurchase activity under the Repurchase Program, as described above, during the three months ended June 30, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Edgar Filing: BRUKER CORP - Form 10-Q

Exhibit

No.	Description
10.1	<u>Offer Letter dated June 4, 2018 between Bruker Corporation and Gerald N. Herman(1)</u>
10.2	<u>Contract of Employment dated May 1, 2018 between Bruker Corporation and Falko Busse(1)</u>
31.1	<u>Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)</u>
31.2	<u>Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)</u>
32.1	<u>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)</u>
101	The following materials from the Bruker Corporation Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss), (ii) the Unaudited Condensed Consolidated Balance Sheets, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows and (iv) Notes to the Unaudited Condensed Consolidated Financial Statements(1)

(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: August 9, 2018

By:

/s/ FRANK H. LAUKIEN, PH.D.
Frank H. Laukien, Ph.D.

President, Chief Executive Officer and Chairman

(Principal Executive Officer)

Date: August 9, 2018

By:

/s/ GERALD N. HERMAN
Gerald N. Herman

Chief Financial Officer and Vice President

(Principal Financial Officer and Principal Accounting Officer)