

BROOKS AUTOMATION INC

Form 10-Q

May 06, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: March 31, 2010**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission File Number 0-25434

BROOKS AUTOMATION, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-3040660

(State or other jurisdiction of
incorporation or organization)

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

15 Elizabeth Drive
Chelmsford, Massachusetts
(Address of principal executive offices)

01824
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, April 30, 2010: Common stock, \$0.01 par value 64,993,400 shares

BROOKS AUTOMATION, INC.
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BROOKS AUTOMATION, INC.
 CONSOLIDATED BALANCE SHEETS
 (unaudited)

(In thousands, except share and per share data)

	March 31, 2010	September 30, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 48,621	\$ 59,985
Marketable securities	35,804	28,046
Accounts receivable, net	67,584	38,428
Inventories, net	103,528	84,738
Prepaid expenses and other current assets	13,939	9,992
Total current assets	269,476	221,189
Property, plant and equipment, net	68,420	74,793
Long-term marketable securities	41,335	22,490
Goodwill	48,138	48,138
Intangible assets, net	13,063	14,081
Equity investment in joint ventures	28,962	29,470
Other assets	2,613	3,161
Total assets	\$ 472,007	\$ 413,322
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 66,721	\$ 26,360
Deferred revenue	3,917	2,916
Accrued warranty and retrofit costs	7,122	5,698
Accrued compensation and benefits	11,232	14,317
Accrued restructuring costs	4,434	5,642
Accrued income taxes payable	2,197	2,686
Accrued expenses and other current liabilities	10,753	12,870
Total current liabilities	106,376	70,489
Accrued long-term restructuring	1,344	2,019
Income taxes payable	11,097	10,755
Long-term pension liability	8,249	7,913
Other long-term liabilities	2,630	2,523
Total liabilities	129,696	93,699
Contingencies (Note 15)		
Equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding		

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Common stock, \$0.01 par value, 125,000,000 shares authorized, 78,453,069 shares issued and 64,991,200 shares outstanding at March 31, 2010, 77,883,173 shares issued and 64,421,304 shares outstanding at September 30, 2009	785	779
Additional paid-in capital	1,799,781	1,795,619
Accumulated other comprehensive income	16,766	16,318
Treasury stock at cost, 13,461,869 shares at March 31, 2010 and September 30, 2009	(200,956)	(200,956)
Accumulated deficit	(1,274,397)	(1,292,631)
Total Brooks Automation, Inc. stockholders' equity	341,979	319,129
Noncontrolling interest in subsidiaries	332	494
Total equity	342,311	319,623
Total liabilities and equity	\$ 472,007	\$ 413,322

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

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BROOKS AUTOMATION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share data)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Revenues				
Product	\$ 133,389	\$ 25,883	\$ 224,910	\$ 84,969
Services	14,964	11,416	29,640	25,776
Total revenues	148,353	37,299	254,550	110,745
Cost of revenues				
Product	97,271	31,909	164,516	85,778
Services	12,132	12,670	24,838	25,859
Impairment of long-lived assets		20,516		20,516
Total cost of revenues	109,403	65,095	189,354	132,153
Gross profit (loss)	38,950	(27,796)	65,196	(21,408)
Operating expenses				
Research and development	7,677	7,666	15,218	16,943
Selling, general and administrative	20,842	25,207	39,821	52,841
Impairment of goodwill		71,800		71,800
Impairment of long-lived assets		14,588		14,588
Restructuring charges	484	5,861	2,006	9,966
Total operating expenses	29,003	125,122	57,045	166,138
Operating income (loss)	9,947	(152,918)	8,151	(187,546)
Interest income	265	646	593	1,543
Interest expense	11	72	27	198
Sale of intellectual property rights	7,840		7,840	
Loss on investment			191	1,185
Other expense, net	91	111	288	149
Income (loss) before income taxes and equity in earnings (losses) of joint ventures	17,950	(152,455)	16,078	(187,535)
Income tax provision (benefit)	(2,819)	189	(2,184)	580
Income (loss) before equity in earnings (losses) of joint ventures	20,769	(152,644)	18,262	(188,115)
Equity in earnings (losses) of joint ventures	179	11	(191)	312
Net income (loss)	\$ 20,948	\$ (152,633)	\$ 18,071	\$ (187,803)
Add: Net loss attributable to noncontrolling interests	81	90	163	177

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Net income (loss) attributable to Brooks Automation, Inc.	\$ 21,029	\$ (152,543)	\$ 18,234	\$ (187,626)
Basic net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$ 0.33	\$ (2.43)	\$ 0.29	\$ (2.99)
Diluted net income (loss) per share attributable to Brooks Automation, Inc. common stockholders	\$ 0.33	\$ (2.43)	\$ 0.28	\$ (2.99)
Shares used in computing earnings (loss) per share				
Basic	63,679	62,844	63,535	62,747
Diluted	64,196	62,844	64,042	62,747

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

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

	Six months ended March 31,	
	2010	2009
Cash flows from operating activities		
Net income (loss)	\$ 18,071	\$ (187,803)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,460	16,324
Impairment of goodwill		71,800
Impairment of long-lived assets		35,104
Sale of intellectual property rights	(7,840)	
Stock-based compensation	3,561	3,394
Amortization of premium on marketable securities	368	19
Undistributed (earnings) losses of joint ventures	191	(312)
(Gain) loss on disposal of long-lived assets	(4)	70
Loss on investment	191	1,185
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable	(29,258)	40,688
Inventories	(19,653)	6,522
Prepaid expenses and other current assets	(4,132)	4,254
Accounts payable	40,424	(21,109)
Deferred revenue	1,062	(1,151)
Accrued warranty and retrofit costs	1,414	(1,502)
Accrued compensation and benefits	(2,972)	(3,486)
Accrued restructuring costs	(1,857)	1,898
Accrued expenses and other	235	(2,820)
Net cash provided by (used in) operating activities	9,261	(36,925)
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,163)	(9,091)
Purchases of marketable securities	(70,872)	(50,539)
Sale/maturity of marketable securities	43,757	36,735
Proceeds from the sale of intellectual property rights	7,840	
Purchase of intangible assets	(892)	
Other	243	
Net cash used in investing activities	(21,087)	(22,895)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs	590	675
Net cash provided by financing activities	590	675

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Effects of exchange rate changes on cash and cash equivalents	(128)	(1,967)
Net decrease in cash and cash equivalents	(11,364)	(61,112)
Cash and cash equivalents, beginning of period	59,985	110,269
Cash and cash equivalents, end of period	\$ 48,621	\$ 49,157

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

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BROOKS AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Brooks Automation, Inc. and its subsidiaries (Brooks or the Company) included herein have been prepared in accordance with generally accepted accounting principles. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected.

Certain information and footnote disclosures normally included in the Company s annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (the SEC) for the year ended September 30, 2009. Certain reclassifications have been made in the prior period consolidated financial statements to conform to the current presentation.

Recently Enacted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance for Fair Value Measurements and Disclosures which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value in the financial statements. In February 2008, the FASB issued authoritative guidance which allowed for the delay of the effective date for fair value measurements for one year for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In April 2009, the FASB issued additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed, is applicable to all assets and liabilities (i.e., financial and non-financial) and requires enhanced disclosures. This standard was effective beginning with the Company s fourth quarter of fiscal 2009. The measurement and disclosure requirements related to financial assets and financial liabilities were effective for the Company beginning on October 1, 2008. See Note 14. On October 1, 2009 the Company adopted the fair value measurement standard for all non-financial assets and non-financial liabilities, which had no impact on its financial position or results of operations.

In December 2007, the FASB revised the authoritative guidance for Business Combinations, which significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, restructuring costs and income taxes. On October 1, 2009 the Company adopted this standard prospectively and will apply the standard to any business combination with an acquisition date after October 1, 2009.

In December 2007, the FASB issued authoritative guidance regarding Consolidation, which establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. This standard clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Further, it clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this standard requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. On October 1, 2009 the Company adopted this standard retrospectively, which did not have a material impact on its financial position or results of operations.

In April 2008, the FASB issued authoritative guidance regarding the determination of the useful life of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. It also improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. On October 1, 2009 the Company adopted this standard, which had no impact on its financial position or results of operations.

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In June 2008, the FASB issued authoritative guidance regarding whether instruments granted in share-based payment transactions are participating securities, which classifies unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of earnings per share pursuant to the two-class method. On October 1, 2009 the Company adopted this standard, which had no impact on its financial position or results of operations.

In December 2008, the FASB issued authoritative guidance regarding Compensation Retirement Benefits, which requires enhanced disclosures about the plan assets of a company's defined benefit pension and other postretirement plans. The enhanced disclosures are intended to provide users of financial statements with a greater understanding of: (1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (2) the major categories of plan assets; (3) the inputs and valuation techniques used to measure the fair value of plan assets; (4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period; and (5) significant concentrations of risk within plan assets. This standard will be effective for the Company for the fiscal year ending September 30, 2010. The Company is currently evaluating the potential impact of this guidance on its future disclosures.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs), which requires a qualitative approach to identifying a controlling financial interest in a VIE, and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. This guidance is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations.

In September 2009, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables. This guidance provides another alternative for establishing fair value for a deliverable. When vendor specific objective evidence or third-party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price for separate deliverables and allocate arrangement consideration using the relative selling price method. This guidance is effective October 1, 2010, and early adoption is permitted. The Company is currently evaluating the potential impact of this guidance on its financial position and results of operations.

2. Stock Based Compensation

The following table reflects compensation expense recorded during the three and six months ended March 31, 2010 and 2009 (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
Stock options	\$ 42	\$ 72	\$ 85	\$ 205
Restricted stock	1,901	1,707	3,269	2,958
Employee stock purchase plan	101	91	207	231
	\$ 2,044	\$ 1,870	\$ 3,561	\$ 3,394

The Company uses the Black-Scholes valuation model for estimating the fair value of the stock options granted. The fair value per share of restricted stock is equal to the number of shares granted and the excess of the quoted price of the Company's common stock over the exercise price of the restricted stock on the date of grant. In addition, for stock-based awards where vesting is dependent upon achieving certain operating performance goals, the Company estimates the likelihood of achieving the performance goals. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates. Restricted stock with market-based vesting criteria is valued using a lattice model. For the three and six months ended March 31, 2010, the Company recorded \$0.1 million and \$0.4 million, respectively, of expense on stock-based awards that have performance goals which vested in the Company's second fiscal quarter of 2010.

During the three months ended March 31, 2010, the Company granted 153,000 shares of restricted stock to members of senior management of which 76,500 shares vest upon the achievement of certain financial performance

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goals which will be measured at the end of fiscal year 2012. Total compensation on these awards is a maximum of \$1.3 million. Awards only subject to service criteria are being recorded to expense ratably over the three year vesting period. Awards subject to performance criteria are expensed over the related service period when attainment of the performance condition is considered probable. The total amount of compensation recorded will depend on the Company's achievement of performance targets. Changes to the projected attainment of performance targets during the vesting period may result in an adjustment to the amount of cumulative compensation recorded as of the date the estimate is revised.

Stock Option Activity

The following table summarizes stock option activity for the six months ended March 31, 2010:

	Number of Options	Weighted- Average Remaining Contractual Term	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)
Outstanding at September 30, 2009	1,189,897		\$ 17.54	
Forfeited/expired	(375,262)		14.09	
Outstanding at March 31, 2010	814,635	1.5 years	\$ 19.13	\$ 35
Vested and unvested expected to vest at March 31, 2010	813,754	1.5 years	\$ 19.13	\$ 35
Options exercisable at March 31, 2010	789,635	1.5 years	\$ 19.32	\$ 35

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$8.82 as of March 31, 2010, which would have been received by the option holders had all option holders exercised their options as of that date.

No stock options were granted during the three and six months ended March 31, 2010 and 2009. There were no stock option exercises in the three and six months ended March 31, 2010 and 2009.

As of March 31, 2010 future compensation cost related to nonvested stock options is approximately \$0.1 million and will be recognized over an estimated weighted average period of 0.6 years.

Restricted Stock Activity

A summary of the status of the Company's restricted stock as of March 31, 2010 and changes during the six months ended March 31, 2010 is as follows:

	Six months ended March 31, 2010	Weighted Average Grant-Date Fair Value
	Shares	
Outstanding at September 30, 2009	1,162,086	\$ 8.96
Awards granted	661,846	8.36
Awards vested	(696,507)	8.01
Awards canceled	(23,013)	7.31
Outstanding at March 31, 2010	1,104,412	\$ 9.26

In November 2009, the Company's Board of Directors (Board) approved the payment of performance based variable compensation awards to certain executive management employees related to fiscal year 2009 performance. The Board chose to pay these awards in fully vested shares of the Company's common stock rather than cash. The

Company granted 178,346 shares based on the closing share price as of November 13, 2009. The \$1.4 million of compensation expense related to these awards was recorded during fiscal year 2009 as selling, general and administrative expense.

The fair value of restricted stock awards vested during the three months ended March 31, 2010 and 2009 was \$3.8 million and \$2.0 million, respectively. The fair value of restricted stock awards vested during the six months

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ended March 31, 2010 was \$5.5 million, which includes the \$1.4 million of compensation expense related to the fiscal year 2009 variable compensation award. The fair value of restricted stock awards vested during the six months ended March 31, 2009 was \$2.4 million.

As of March 31, 2010, the unrecognized compensation cost related to nonvested restricted stock is \$5.7 million and will be recognized over an estimated weighted average amortization period of 1.6 years.

Employee Stock Purchase Plan

There were 116,160 shares purchased under the employee stock purchase plan during the three and six months ended March 31, 2010 for aggregate proceeds of \$0.6 million. There were 172,437 shares purchased under the employee stock purchase plan during the three and six months ended March 31, 2009 for aggregate proceeds of \$0.7 million.

3. Goodwill

The components of the Company's goodwill by business segment at March 31, 2010 are as follows (in thousands):

	Critical Solutions Group	Systems Solutions Group	Global Customer Operations	Other	Total
Gross goodwill	\$ 353,253	\$ 151,184	\$ 151,238	\$ 7,421	\$ 663,096
Less: aggregate impairment charges recorded	(305,115)	(151,184)	(151,238)	(7,421)	(614,958)
	\$ 48,138	\$	\$	\$	\$ 48,138

The Company did not have any adjustments to goodwill during the three and six months ended March 31, 2010. Components of the Company's identifiable intangible assets are as follows (in thousands):