

BROOKS AUTOMATION INC  
Form 10-Q  
May 03, 2019  
Table of Contents

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, 2019

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 000-25434

---

BROOKS AUTOMATION, INC.

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-3040660  
(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	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 Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	BRKS	The Nasdaq Stock Market LLC

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date, April 29, 2019: common stock, \$0.01 par value and 72,137,250 shares outstanding.

---

Table of Contents

BROOKS AUTOMATION, INC.

Table of Contents

	PAGE NUMBER
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2019 (unaudited) and September 30, 2018</u>	3
<u>Consolidated Statements of Operations for the three and six months ended March 31, 2019 and 2018 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2019 and 2018 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended March 31, 2019 and 2018 (unaudited)</u>	6
<u>Consolidated Statements of Changes in Equity for the six months ended March 31, 2019 and 2018 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	54
<u>Item 4. Controls and Procedures</u>	55
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	56
<u>Item 1A. Risk Factors</u>	56
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
<u>Item 6. Exhibits</u>	57
<u>Signatures</u>	58

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## BROOKS AUTOMATION, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except share and per share data)

	March 31, 2019	September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 137,217	\$ 197,708
Marketable securities	47	46,281
Accounts receivable, net	163,653	125,192
Inventories	108,512	96,986
Prepaid expenses and other current assets	35,056	31,741
Current assets held for sale	65,005	66,148
Total current assets	509,490	564,056
Property, plant and equipment, net	97,939	59,988
Long-term marketable securities	2,795	7,237
Long-term deferred tax assets	28,012	43,798
Goodwill	492,526	255,876
Intangible assets, net	270,793	99,956
Other assets	23,250	5,294
Non-current assets held for sale	63,072	59,052
Total assets	\$ 1,487,877	\$ 1,095,257
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long term debt	\$ 8,114	\$ 2,000
Accounts payable	56,934	55,873
Deferred revenue	31,200	25,884
Accrued warranty and retrofit costs	7,202	6,340
Accrued compensation and benefits	24,129	29,322
Accrued restructuring costs	586	659
Accrued income taxes payable	7,276	6,746
Accrued expenses and other current liabilities	36,294	30,405
Current liabilities held for sale	6,595	7,388
Total current liabilities	178,330	164,617
Long-term debt	535,384	194,071
Long-term tax reserves	15,037	1,102
Long-term deferred tax liabilities	15,978	7,135
Long-term pension liabilities	4,717	4,255
Other long-term liabilities	7,997	5,547

Edgar Filing: BROOKS AUTOMATION INC - Form 10-Q

Non-current liabilities held for sale	523	698
Total liabilities	757,966	377,425
Commitments and contingencies (Note 16)		
Stockholders' Equity		
Preferred stock, \$0.01 par value - 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value - 125,000,000 shares authorized, 85,593,182 shares issued and 72,131,313 shares outstanding at March 31, 2019, 84,164,130 shares issued and 70,702,261 shares outstanding at September 30, 2018	856	841
Additional paid-in capital	1,909,684	1,898,434
Accumulated other comprehensive income	11,852	13,587
Treasury stock, at cost- 13,461,869 shares	(200,956)	(200,956)
Accumulated deficit	(991,525)	(994,074)
Total stockholders' equity	729,911	717,832
Total liabilities and stockholders' equity	\$ 1,487,877	\$ 1,095,257

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

Table of Contents

BROOKS AUTOMATION, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Revenue				
Products	\$ 128,056	\$ 121,031	\$ 253,430	\$ 226,803
Services	70,334	35,921	124,327	72,748
Total revenue	198,390	156,952	377,757	299,551
Cost of revenue				
Products	77,803	70,635	152,376	134,164
Services	40,071	23,931	72,785	48,742
Total cost of revenue	117,874	94,566	225,161	182,906
Gross profit	80,516	62,386	152,596	116,645
Operating expenses				
Research and development	14,101	11,347	27,249	22,752
Selling, general and administrative	52,373	40,671	105,914	78,599
Restructuring charges	370	47	429	48
Total operating expenses	66,844	52,065	133,592	101,399
Operating income	13,672	10,321	19,004	15,246
Interest income	316	356	739	504
Interest expense	(8,018)	(2,196)	(13,308)	(4,377)
Loss on extinguishment of debt	(9,051)	—	(9,051)	—
Other expenses, net	(778)	(515)	(807)	(2,438)
Income (loss) before income taxes	(3,859)	7,966	(3,423)	8,935
Income tax benefit	(1,030)	(54,531)	(6,860)	(55,181)
Income (loss) from continuing operations	(2,829)	62,497	3,437	64,116
Income from discontinued operations, net of tax	6,250	4,523	14,399	19,390
Net income	\$ 3,421	\$ 67,020	\$ 17,836	\$ 83,506
Basic net income per share attributable to Brooks Automation, Inc. common stockholders:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.89	\$ 0.05	\$ 0.91
Income from discontinued operations, net of tax	0.09	0.06	0.20	0.28
Basic net income per share	\$ 0.05	\$ 0.95	\$ 0.25	\$ 1.19
Diluted net income per share attributable to Brooks Automation, Inc. common stockholders:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.89	\$ 0.05	\$ 0.90
Income from discontinued operations, net of tax	0.09	0.06	0.20	0.27
Diluted net income per share	\$ 0.05	\$ 0.95	\$ 0.25	\$ 1.18
Weighted average shares used in computing net income per share:				

Edgar Filing: BROOKS AUTOMATION INC - Form 10-Q

Basic	72,077	70,220	71,760	70,340
Diluted	72,292	70,613	72,215	70,908

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

4

---

Table of Contents

BROOKS AUTOMATION, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income	\$ 3,421	\$ 67,020	\$ 17,836	\$ 83,506
Other comprehensive income (loss), net of tax:				
Cumulative foreign currency translation adjustments	(3,513)	5,154	(1,836)	9,287
Unrealized gains (losses) on marketable securities, net of tax effects of \$0 during each of the three and six months ended March 31, 2019, and \$0 during each of the three and six months ended March 31, 2018	232	—	111	—
Actuarial gains (losses), net of tax effects of \$0 and \$3 during the three and six months ended March 31, 2019, \$0 and (\$2) during the three and six months ended March 31, 2018	(1)	6	(10)	(3)
Total other comprehensive income (loss), net of tax	(3,282)	5,160	(1,735)	9,284
Comprehensive income (loss)	\$ 139	\$ 72,180	\$ 16,101	\$ 92,790

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



Table of Contents

BROOKS AUTOMATION, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands)

	Six Months Ended	
	March 31,	2018
	2019	2018
Cash flows from operating activities		
Net income	\$ 17,836	\$ 83,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,339	17,634
Stock-based compensation	9,717	10,129
Amortization of premium on marketable securities and deferred financing costs	556	217
Earnings of equity method investments	(3,041)	(3,602)
Loss recovery on insurance claim	—	(1,103)
Deferred income tax benefit	(12,472)	(49,156)
Loss on extinguishment of debt	9,051	—
Other gains on disposals of assets	34	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,654)	(16,949)
Inventories	(9,992)	(16,233)
Prepaid expenses and other assets	1,938	(17,248)
Accounts payable	(6,088)	14,899
Deferred revenue	5,410	(2,783)
Accrued warranty and retrofit costs	740	(16)
Accrued compensation and tax withholdings	(11,123)	(4,151)
Accrued restructuring costs	(57)	(1,336)
Proceeds from recovery on insurance claim	886	—
Accrued expenses and other liabilities	2,149	9,619
Net cash provided by operating activities	22,229	23,427
Cash flows from investing activities		
Purchases of property, plant and equipment	(9,676)	(5,675)
Purchases of marketable securities	(1,290)	(49,560)
Sales of marketable securities	48,904	—
Maturities of marketable securities	2,557	100
Acquisitions, net of cash acquired	(442,704)	(64,988)
Proceeds from sales of property, plant and equipment	—	200
Net cash used in investing activities	(402,209)	(119,923)
Cash flows from financing activities		
Proceeds from term loans, net of discount	686,386	197,554
Proceeds from issuance of common stock	1,548	1,395
Payment of financing costs	(687)	(318)

Edgar Filing: BROOKS AUTOMATION INC - Form 10-Q

Principal payments on debt	(352,289)	(500)
Payment of capital lease	(487)	—
Common stock dividends paid	(14,429)	(14,125)
Net cash provided by financing activities	320,042	184,006
Effects of exchange rate changes on cash and cash equivalents	(553)	4,884
Net increase (decrease) in cash and cash equivalents	(60,491)	92,394
Cash and cash equivalents, beginning of period	197,708	101,622
Cash and cash equivalents, end of period	\$ 137,217	\$ 194,016
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property, plant and equipment included in accounts payable	\$ 1,670	\$ 716

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

Table of Contents

BROOKS AUTOMATION, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

(In thousands, except share data)

	Common Stock Shares (In thousands, except share data)	Common Stock at Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Total Equity
Balance							
September 30, 2017	83,294,848	\$ 833	\$ 1,874,918	\$ 15,213	\$ (1,082,364)	\$ (200,956)	\$ 607,644
Shares issued under restricted stock and purchase plans, net	706,877	7	1,388				1,395
Stock-based compensation			10,129				10,129
Common stock dividends declared, at \$0.20 per share					(14,125)		(14,125)
Foreign currency translation adjustments				9,287			9,287
Actuarial losses, net of tax effects of (\$2)				(3)			(3)
Net income					83,506		83,506
Balance							
March 31, 2018	84,001,725	\$ 840	\$ 1,886,435	\$ 24,497	\$ (1,012,983)	\$ (200,956)	\$ 697,833
Balance							
September 30, 2018	84,164,130	\$ 841	\$ 1,898,434	\$ 13,587	\$ (994,074)	\$ (200,956)	\$ 717,832
Shares issued under restricted stock and purchase plans, net	1,429,052	15	1,533				1,548
Stock-based compensation			9,717				9,717
Common stock dividends declared, at \$0.20 per share					(14,428)		(14,428)
Foreign currency translation adjustments				(1,836)			(1,836)
				111			111

Changes in unrealized losses on marketable securities, net of tax effects of \$0								
Actuarial losses, net of tax effects of \$3				(10)				(10)
ASC 606 adjustment				—	(859)			(859)
Net income					17,836			17,836
Balance								
March 31, 2019	85,593,182	\$ 856	\$ 1,909,684	\$ 11,852	\$ (991,525)	\$ (200,956)		\$ 729,911

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

Table of Contents

BROOKS AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements of Brooks Automation, Inc. and its subsidiaries (“Brooks”, or the “Company”) included herein have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all material adjustments, which are of a normal and recurring nature and necessary for a fair statement of the financial position and results of operations and cash flows for the periods presented, have been reflected in the accompanying unaudited consolidated financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year.

Discontinued Operations

In the fourth quarter of fiscal year 2018, the Company entered into a definitive agreement to sell its semiconductor cryogenics business to Edwards Vacuum LLC (a member of the Atlas Copco Group), (the “Disposition”). The Company determined that the cryogenics business met the “held for sale” criteria and the “discontinued operations” criteria in accordance with Financial Accounting Standard Boards (“FASB”) Accounting Standards Codification (“ASC”) 205, Presentation of Financial Statements, (“FASB ASC 205”) as of September 30, 2018. The Consolidated Balance Sheets and Consolidated Statements of Operations, and the notes to the Consolidated Financial Statements were restated for all periods presented to reflect the discontinuation of the cryogenics business, in accordance with FASB ASC 205. The discussion in the notes to these Consolidated Financial Statements, unless otherwise noted, relate solely to the Company’s continuing operations. Please refer to Note 3, “Discontinued Operations” for further information.

Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10 K filed with the United States Securities and Exchange Commission (the “SEC”) for the fiscal year ended September 30, 2018 (the “2018 Annual Report on Form 10 K”). The accompanying Consolidated Balance Sheet as of September 30, 2018 was derived from the audited annual consolidated financial statements as of the period then ended.

Revision of Prior Period Financial Statements

During the three months ended March 31, 2019, the Company identified a misclassification related to the presentation of the product and service revenue and the cost of product and service revenue related to GENEWIZ in the Company’s Consolidated Statements of Operations for the three months ended December 31, 2018. The total revenue and cost of revenue related to GENEWIZ for the three months ended December 31, 2018 were included in the product revenue and cost of revenue line items instead of the service revenue and cost of revenue line items in the Consolidated Statements of Operations in the Form 10-Q for the quarter ended December 31, 2018. GENEWIZ was acquired during the three months ended December 31, 2018 and therefore the misclassification did not impact any other historical periods. The misclassification had no impact on total revenue or the total cost of revenue, gross profit, operating income (loss), net income (loss), as well as basic and diluted net income (loss) per share during any of the periods presented. Additionally, the misclassification had no impact on the Company’s consolidated balance sheets and consolidated statements of cash flows during any of the prior periods. The Company considered the guidance in Accounting Standard Codification (ASC) Topic 250, “Accounting Changes and Error Corrections,” ASC Topic 250-10-S99-1, “Assessing Materiality,” and ASC Topic 250-10-S99-2, “Considering the Effects of Prior Year

Misstatements when Quantifying Misstatements in Current Year Financial Statements" in evaluating whether the Company's previously issued consolidated financial statements were materially misstated. The Company concluded this misclassification was not material individually or in the aggregate to the financial statements presented for the three months ended December 31, 2018, and therefore, amendments of the previously filed Form 10-Q for the three months ended December 31, 2018 was not required. The revision for this correction to the three months ended December 31, 2018 is reflected in the reported

Table of Contents

revenue and cost of revenue classification for the six months ended March 31, 2019 in this report and will be corrected in any future filings containing such financial information for the three months ended December 31, 2018.

The following table summarizes the effects of the misclassification to the three months ended December 31, 2018:

Dollars in thousands	Three Months Ended December 31, 2018		
	As Previously Reported	Adjustment	As Revised
<b>Total Company</b>			
<b>Revenue</b>			
Products	\$ 141,732	\$ (16,357)	\$ 125,375
Service	37,636	16,357	53,993
<b>Total Revenue</b>	<b>179,368</b>	<b>—</b>	<b>179,368</b>
<b>Cost of revenue</b>			
Products	83,481	(8,907)	74,574
Service	23,806	8,907	32,713
<b>Total cost of revenue</b>	<b>\$ 107,287</b>	<b>\$ —</b>	<b>\$ 107,287</b>
<b>Brooks Life Science Segment</b>			
<b>Revenue</b>			
Products	\$ 39,931	\$ (16,357)	\$ 23,574
Service	26,730	16,357	43,087
<b>Total Revenue</b>	<b>\$ 66,661</b>	<b>\$ —</b>	<b>\$ 66,661</b>

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of unaudited consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are associated with accounts receivable, inventories, goodwill, intangible assets other than goodwill, long-lived assets, derivative financial instruments, deferred income taxes, warranty obligations, revenue recognized on an over time method, pension obligations and stock-based compensation expense. The Company bases its estimates on historical experience and various other assumptions, including in certain circumstances future projections that management believes to be reasonable under the circumstances. Although the Company regularly assesses these estimates, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they occur and become known.

### Foreign Currency Translation

Certain transactions of the Company and its subsidiaries are denominated in currencies other than their functional currency.

Foreign currency exchange losses generated from the settlement and remeasurement of these transactions are recognized in earnings and presented within “Other expenses, net” in the Company’s unaudited Consolidated Statements of Operations. Net foreign currency transaction and remeasurement losses totaled \$0.6 million and \$0.5 million, respectively, during the three months ended March 31, 2019 and 2018 and \$0.6 million and \$2.5 million, respectively, during the six months ended March 31, 2019 and 2018.



Table of Contents

## Derivative Instruments

The Company has transactions and balances denominated in currencies other than the U.S. dollar. Most of these transactions or balances are denominated in Euros, British Pounds and a variety of Asian currencies. The Company enters into foreign exchange contracts to reduce its exposure to currency fluctuations. The forward contract arrangements that the Company enters into, typically mature in three months or less. These transactions do not qualify for hedge accounting. Net gains and losses related to these contracts are recorded as a component of "Other expenses, net" in the accompanying unaudited Consolidated Statements of Operations and are as follows for the three and six months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
Realized losses on derivatives not designated as hedging instruments	\$ (3,831)	\$ (4,548)	\$ (854)	\$ (6,221)

The fair values of the forward contracts are recorded in the Company's accompanying unaudited Consolidated Balance Sheets as "Prepaid expenses and other current assets" and "Accrued expenses and other current liabilities". Foreign exchange contract assets and liabilities are measured and reported at fair value based on observable market inputs and classified within Level 2 of the fair value hierarchy described below due to a lack of an active market for these contracts.

## Fair Value Measurements

The Company measures at fair value certain financial assets and liabilities, including cash equivalents and available for sale securities. FASB ASC 820, Fair Value Measurement and Disclosures, establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following levels of inputs may be used to measure fair value:

**Level 1 Inputs:** Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2 Inputs:** Observable inputs other than prices included in Level 1, including quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3 Inputs:** Unobservable inputs that are significant to the fair value of the assets or liabilities and reflect an entity's own assumptions in pricing assets or liabilities since they are supported by little or no market activity.

As of March 31, 2019, the Company had no assets or liabilities measured and recorded at fair value on a recurring basis using Level 3 inputs.

## Recently Issued Accounting Pronouncements

In March 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-01 "Leases (Topic 842) - Codification Improvements", which makes targeted changes to lessor accounting and clarifies interim transition

disclosure requirements. The targeted changes to the lessor accounting are not applicable to the Company because we are not in the industry to be targeted by the guidance. The ASU clarifies that companies are exempt from making the interim period transition disclosures required by ASC 250, Accounting Changes and Error Corrections, for the period in which a change in accounting principle is made as a result of adopting ASC 842. This interim period disclosure exemption is consistent with ASC 842, which already allowed companies to exclude the annual effect of the accounting change on income from continuing operations, net income and per-share amounts for periods post-adoption. This ASU is effective for fiscal years ending after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

Table of Contents

In December 2018, the Financial Accounting Standard Board (“FASB”) issued ASU 2018-20 “Leases (Topic 842): Narrow-Scope Improvements for Lessors”. The amendments create a lessor practical expedient applicable to sales and other similar taxes incurred in connection with a lease and simplify lessor accounting for lessor costs paid by the lessee. The ASU permits lessors to present sales and other similar taxes that arise from a specific leasing transaction on a net basis. It requires lessors to present lessor costs paid by the lessee directly to a third party on a net basis – regardless of whether the lessor knows, can determine or can reliably estimate those costs. It requires lessors to present lessor costs paid by the lessee to the lessor on a gross basis. It clarifies that lessors should recognize variable payments allocable to non-lease components as revenue in accordance with relevant other guidance. The effective date coincides with the effective date of the new leases standard for companies that have not early adopted. As such, this ASU is effective for fiscal years ending after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

In August 2018, the Financial Accounting Standard Board (“FASB”) issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The provisions may be adopted prospectively or retrospectively. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

In August 2018, the FASB issued ASU 2018-14, Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans, which amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The amendments require additional disclosure for the weighted-average interest crediting rates, a narrative description of the reasons for significant gains and losses, and an explanation of any other significant changes in the benefit obligation or plan assets. The amendment removes disclosure requirement for accumulated other comprehensive income expected to be recognized over the next year, information about plan assets to be returned to the entity, and the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits. The ASU is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The ASU does not amend the interim disclosure requirements of ASC 715-20. The Company is currently evaluating the impact of this ASU.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which amends ASC 820 to add and remove disclosure requirements related to fair value measurement. The amendments include new disclosure requirement for changes in unrealized gains or losses included in other comprehensive income (OCI) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The amendments eliminated disclosure requirements for amount of and reasons for transfers between Level 1 and Level 2, valuation processes for Level 3 fair value measurements, and policy for timing of transfers between levels of the fair value hierarchy. In addition, the amendments modified certain disclosure requirement to provide clarification or to promote appropriate exercise of discretion by entities. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact of this ASU.

In March 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which amends ASC 220 to add, remove, and clarify disclosure requirements related to reporting comprehensive income. This ASU gives entities the option to reclassify tax effects recorded in accumulated

other comprehensive income as a result of tax reform to retained earnings. The entities have the option to apply the guidance retrospectively or in the period of adoption. The guidance requires entities to make new disclosures, regardless of whether they elect to reclassify tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted. The Company expects to adopt

## Table of Contents

the guidance during the first quarter of fiscal year 2020 and is evaluating the effect that ASU 2018-02 will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), which amends ASC 326 to add, remove, and clarify disclosure requirements related to credit losses of financial instruments. The new guidance introduces a new "expected loss" impairment model which applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities and other financial assets. Entities are required to estimate expected credit losses over the life of financial assets and record an allowance against the assets' amortized cost basis to present them at the amount expected to be collected. Additionally, the guidance amends the impairment model for available for sale debt securities and requires entities to determine whether all or a portion of the unrealized loss on such debt security is a credit loss. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption of the newly issued guidance is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The standard should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company expects to adopt the guidance during the first quarter of fiscal year 2021 and is currently evaluating the impact of this guidance on its financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), an amendment of the FASB ASC. In accordance with the provisions of the newly issued guidance, a lessee should recognize at the inception of the arrangement a right-of-use asset and a corresponding lease liability initially measured at the present value of lease payments over the lease term. For finance leases, interest on a lease liability should be recognized separately from the amortization of the right-of-use asset, while for operating leases, total lease costs are recorded on a straight-line basis over the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying assets to forgo a recognition of right-of-use assets and corresponding lease liabilities and record a lease expense on a straight-line basis. Entities should determine at the inception of the arrangement whether a contract represents a lease or contains a lease which is defined as a right to control the use of identified property for a period of time in exchange for consideration. Additionally, entities should separate the lease components from the non-lease components and allocate the contract consideration on a relative standalone price basis in accordance with provisions of ASC Topic 606, Revenue from Contracts with Customers. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and should be adopted via a modified retrospective approach with certain optional practical expedients that entities may elect to apply. The Company expects to adopt the guidance during the first quarter of fiscal year 2020 and is currently evaluating the impact of this guidance on its financial position and results of operations.

## Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued new accounting guidance for reporting revenue recognition, ASC 606 Revenue from Contracts with Customers ("ASC 606"). The guidance provides for the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance also specifies the accounting for certain costs to obtain and fulfill a contract, as codified in ASC 340-40 Accounting for Other Assets and Deferred Costs ("ASC 340-40").

The Company adopted this standard effective October 1, 2018, using the modified retrospective method and has only applied this method to contracts that were not completed as of the effective date and all new contracts initiated on or after the effective date. Results for reporting periods beginning on or after October 1, 2018 are presented under ASC 606, while prior period amounts have not been restated and continue to be reported in accordance with the governing

revenue recognition standards applicable to that period.

12

---

Table of Contents

The impact of the cumulative effect of adopting ASC 606 effective October 1, 2018 on the Company's Consolidated Balance Sheet is as follows:

	As Reported September 30, 2018	Impact of Adopting ASC 606	As Adopted October 1, 2018
Prepaid expenses and other current assets	\$ 31,741	\$ 350	\$ 32,091
Prepaid expenses and other current assets - discontinued operations	343	235	578
Other assets	5,294	1,483	6,777
Long-term deferred tax assets	43,798	403	44,201
Deferred revenue	25,884	2,850	28,734
Deferred revenue - discontinued operations	1,052	480	1,532
Accumulated deficit	(994,074)	(859)	(994,933)

Upon adoption the Company recorded a cumulative effect adjustment of \$0.9 million, net of tax adjustment of \$0.4 million, which resulted in an increase to the opening accumulated deficit balance on the Consolidated Balance Sheet, primarily driven by deferral of previously recognized revenue within the Brooks Life Sciences segment, offset by deferral of previously recognized commission expense within the Brooks Life Sciences segment and acceleration of revenue within the Brooks Semiconductor Solutions Group segment.

A portion of the adjustment related to the acceleration of revenue within the Brooks Semiconductor Solutions Group segment results from the change in the revenue recognition rules. Upon the adoption of ASC 606, the Company is no longer required to defer revenue in accordance with billing constraints defined in the contract with the customer. The change impacted the Company's semiconductor contamination control solutions revenue stream as under this new guidance, the Company recognizes revenue in an amount equivalent to the transfer of control that has occurred. (Please refer to Note 13, "Revenue" for further information on when control is transferred). As a result, revenue previously deferred due to the contractual billing restraints that otherwise met the revenue recognition requirements was accelerated into the opening accumulated deficit balance resulting in an increase to accumulated deficit of \$0.9 million as of October 1, 2018.

A portion of the adjustment related to the deferral of previously recognized revenue within the Brooks Life Science segment related to fees associated with registration of biological samples. This adjustment is derived from the new requirement to recognize revenue associated with certain sample life cycle management solutions transactions over time under ASC 606, while historically these transactions have been recorded at a point in time. Registration fees for these samples were previously recognized as revenue at a point in time upon completion of the registration and are now required to be recognized ratably over the period of benefit under ASC 606. As a result, upon adopting the standard the Company deferred previously recognized registration fee revenue for contracts not completed as of the effective date. The period of benefit associated with registration fees has been determined to be approximately 24

months resulting in the deferral of revenue historically recognized at a point in time over this period. This change resulted in a decrease to accumulated deficit of \$3.1 million as of October 1, 2018.

A portion of the adjustment is related to the deferral of previously recognized commission expense within the Brooks Life Science segment. This portion of the adjustment is derived from the new requirement to recognize the cost to obtain certain transactions over time under ASC 340-40, while historically this expense has been recognized at a point in time. The standard requires certain costs incurred to obtain a contract to be recorded as an asset when incurred and expensed as the transfer of control of the underlying performance obligations occur or over the estimated customer life, depending on the nature of the underlying contract. As a result, upon adopting the standard the Company deferred previously recognized costs for contracts not completed as of the effective date. The estimated customer life has been determined to be approximately 60 months resulting in the deferral of costs historically expensed at a point in time over this period. This change resulted in an increase to accumulated deficit of \$1.5 million as of October 1, 2018.



Table of Contents

Additional changes to the Company's accumulated deficit were made as the result of adopting ASC 606. These changes, which resulted in a cumulative decrease to accumulated deficit of \$0.2 million as of October 1, 2018, were driven by the identification of additional performance obligations as well as changes in the transfer of control of certain performance obligations across both the Brooks Semiconductor Solutions Group and Brooks Life Science segments. The additional changes to the Company's accumulated deficit included a cumulative decrease to accumulated deficit of \$0.2 million from discontinued operations.

As the Company has adopted ASC 606 using the modified retrospective method, the standard requires disclosure of impact from adoption of the standard to each financial statement line item in the current reporting period. The impact of adoption of ASC 606 on the Company's Consolidated Statement of Operations and Consolidated Balance sheet was as follows:

	Three Months Ended March 31, 2019		
	As Reported	Without	Effect of Change
		adoption of ASC 606	Higher/(Lower)
Revenue	\$ 198,390	\$ 199,555	\$ (1,165)
Cost of revenue	117,874	118,372	(498)
Gross profit	80,516	81,183	(667)
Operating expenses	66,844	66,651	193
Operating income	\$ 13,672	\$ 14,532	\$ (860)

	Six Months Ended March 31, 2019		
	As Reported	Without	Effect of Change
		adoption of ASC 606	Higher/(Lower)
Revenue	\$ 377,757	\$ 379,323	\$ (1,566)
Cost of revenue	225,161	226,171	(1,010)
Gross profit	152,596	153,152	(556)
Operating expenses	133,592	133,195	397
Operating income	\$ 19,004	\$ 19,957	\$ (953)

	March 31, 2019		
	As Reported	Without	Effect of Change
		adoption of ASC 606	Higher/(Lower)
Prepaid expenses and other current assets	\$ 35,056	\$ 31,141	\$ 3,915

Other assets	23,250	22,163	1,087
Deferred revenue	31,200	28,328	2,872
Accumulated deficit	(991,525)	(993,655)	2,130

The difference between the reported results and the results without the adoption of ASC 606 was primarily driven from the elimination of revenue constraints due to billing limitations that resulted in acceleration of revenue within the Brooks Semiconductor Solutions Group segment and the deferral of fees associated with the registration of biological samples within the Brooks Life Science segment. Amortization of costs to obtain a contract capitalized through the cumulative effect adjustment described above have resulted in additional expense in the current period under ASC 606. Except as disclosed above, the adoption of ASC 606 did not have a significant impact on the Company's Consolidated Statement of Operations for the three and six months ended March 31, 2019 and Consolidated Balance Sheet as of March 31, 2019.

Table of Contents

Other

For further information with regard to the Company's significant accounting policies, please refer to Note 2 "Summary of Significant Accounting Policies" to the Company's consolidated financial statements included in the 2018 Annual Report on Form 10 K.

3. Discontinued Operations

On August 27, 2018, the Company entered into a definitive agreement to sell its semiconductor cryogenics business to Edwards Vacuum LLC (a member of the Atlas Copco Group) for \$675.0 million in cash. The purchase price is subject to adjustments for working capital and other items. The Company anticipates closing of the transaction in the third fiscal quarter of 2019 upon satisfaction of various closing conditions and regulatory approvals.

The semiconductor cryogenics business consists of the CTI pump business, Polycold chiller business, the related services business and the Company's 50% share in Ulvac Cryogenics, Inc., a joint venture based in Japan. The semiconductor cryogenics business was originally acquired by the Company in its 2005 merger with Helix Technology Corporation and is included in the Brooks Semiconductor Solutions Group segment as part of the segment.

In connection with the Disposition, the Company and Edwards have agreed to enter into a transition service agreement, a supply agreement, and lease agreements. The transition service agreement outlines the information technology, people, and facility support the Company expects to provide to Edwards for a period up to 9 months after transaction closing date. The supply agreement allows the Company to purchase CTI and Polycold goods at cost from Edwards up to an aggregate amount equal to \$1.0 million during the one-year term after closing of the Disposition. The lease agreements will provide facility space to Edwards free of charge for three years after the transaction closing date. Edwards will have the option to renew each lease at the then current market rates after the initial three-year lease term has ended. This Disposition is consistent with the Company's long-standing strategy to increase shareholder value by accelerating the growth of its Life Sciences business with further acquisitions and strengthening its semiconductor automation business with opportunistic acquisitions.

The Disposition met the "held for sale" criteria and the "discontinued operation" criteria in accordance with FASB ASC 205 as of September 30, 2018. As such, its operating results have been reported as a discontinued operation for all periods presented.

Table of Contents

The following table presents the financial results of discontinued operations (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
Revenue				
Products	\$ 23,895	\$ 39,460	\$ 52,681	\$ 75,872
Services	11,759	10,848	22,297	21,165
Total revenue	35,654	50,308	74,978	97,037
Cost of revenue				
Products	15,182	22,499	31,698	43,147
Services	6,678	5,510	12,727	10,635
Total cost of revenue	21,860	28,009	44,425	53,782
Gross profit	13,794	22,299	30,553	43,255
Operating expenses				
Research and development	2,168	1,620	4,326	3,414
Selling, general and administrative	4,993	7,180	12,196	10,427
Restructuring charges	-	2	-	2
Total operating expenses	7,161	8,802	16,522	13,843
Operating income	6,633	13,497	14,031	29,412
Other income, net	278	255	567	527
Income before income taxes and earnings of equity method investment	6,911	13,752	14,598	29,939
Income tax provision	1,930	10,651	3,240	14,151
Income before equity in earnings of equity method investment	4,981	3,101	11,358	15,788
Equity in earnings of equity method investment	1,269	1,422	3,041	3,602
Net income	\$ 6,250	\$ 4,523	\$ 14,399	\$ 19,390

The table above reflects revenue for the three and six months ended March 31, 2019 in accordance with ASC 606, while results for the three and six months ended March 31, 2018 have not been restated and are reported in accordance with the governing revenue recognition standards applicable to that period. Results for the three and six months ended March 31, 2019 were not significantly impacted by the adoption of ASC 606.

The Company performed its annual goodwill impairment analysis in April 2018. This analysis was updated upon announcement of the Disposition for the year ended September 30, 2018. The Company has concluded that there is no impairment indicator related to the goodwill of the Disposition group at either date the impairment analysis was performed.

The following table presents the summarized financial information for Ulvac Cryogenics, Inc., the unconsolidated subsidiaries accounted for based on the equity method (in thousands):

	March 31, 2019	September 30, 2018
--	-------------------	-----------------------

Balance Sheets:

Edgar Filing: BROOKS AUTOMATION INC - Form 10-Q

Current assets	\$ 70,071	\$ 69,302
Non-current assets	21,409	21,338
Current liabilities	27,168	26,006
Non-current liabilities	8,227	8,397

16

---

Table of Contents

	Three Months Ended		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
Statements of Operations:				
Total revenue	\$ 22,756	\$ 23,106	\$ 45,050	\$ 45,979
Gross profit	8,305	8,879	17,241	18,112
Operating Income	4,078	4,690	9,214	10,046
Net income	2,602	2,738	6,108	7,052

The following table presents the significant non-cash items and capital expenditures for the discontinued operations that are included in the Consolidated Statements of Cash Flows (in thousands):