

BROOKS AUTOMATION INC  
Form 10-Q  
February 05, 2015  
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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: December 31, 2014  
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)  
15 Elizabeth Drive  
Chelmsford, Massachusetts  
(Address of principal executive offices)

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

01824  
(Zip Code)

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

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

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

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

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Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, January 28, 2015: common stock, \$0.01 par value and 67,314,057 shares outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## BROOKS AUTOMATION, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except share and per share data)

	December 31, 2014	September 30, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 77,759	\$ 94,114
Marketable securities	58,648	68,130
Accounts receivable, net	75,675	80,106
Inventories	94,936	93,567
Deferred tax assets	17,367	19,009
Prepaid expenses and other current assets	15,166	19,387
Total current assets	339,551	374,313
Property, plant and equipment, net	47,918	50,183
Long-term marketable securities	82,288	83,212
Long-term deferred tax assets	73,120	67,563
Goodwill	117,652	109,501
Intangible assets, net	62,722	59,550
Equity method investments	27,197	28,944
Other assets	6,699	4,772
Total assets	\$ 757,147	\$ 778,038
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 37,674	\$ 33,740
Capital lease obligation	881	881
Deferred revenue	25,657	26,279
Accrued warranty and retrofit costs	6,255	6,499
Accrued compensation and benefits	12,353	21,663
Accrued restructuring costs	3,928	3,475
Accrued income taxes payable	2,966	1,808
Deferred tax liabilities	847	808
Accrued expenses and other current liabilities	14,094	18,688
Total current liabilities	104,655	113,841
Long-term capital lease obligation	7,296	7,417
Long-term tax reserves	5,293	5,708
Long-term deferred tax liabilities	3,941	2,567
Long-term pension liability	1,715	1,774
Other long-term liabilities	3,633	3,842
Total liabilities	126,533	135,149
Commitments and contingencies (Note 18)		
Equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
	808	804

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Common stock, \$0.01 par value, 125,000,000 shares authorized, 80,775,926 shares issued and 67,314,057 shares outstanding at December 31, 2014, 80,375,777 shares issued and 66,913,908 shares outstanding at September 30, 2014

Additional paid-in capital	1,835,998	1,834,619
Accumulated other comprehensive income	11,502	15,687
Treasury stock at cost, 13,461,869 shares	(200,956 )	(200,956 )
Accumulated deficit	(1,016,738 )	(1,007,265 )
Total equity	630,614	642,889
Total liabilities and equity	\$ 757,147	\$ 778,038

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 December 31,	
	2014	2013
Revenue		
Product	\$99,730	\$93,130
Services	23,006	23,942
Total revenue	122,736	117,072
Cost of revenue		
Product	70,220	60,736
Services	13,428	15,445
Total cost of revenue	83,648	76,181
Gross profit	39,088	40,891
Operating expenses		
Research and development	13,489	12,551
Selling, general and administrative	29,411	26,135
Restructuring and other charges	2,668	747
Total operating expenses	45,568	39,433
Operating income (loss)	(6,480)	) 1,458
Interest income	251	246
Interest expense	(102)	) —
Other income, net	1,019	259
Income (loss) before income taxes and equity in earnings (losses) of equity method investments	(5,312)	) 1,963
Income tax provision (benefit)	(3,110)	) 793
Income (loss) before equity in earnings (losses) of equity method investments	(2,202)	) 1,170
Equity in earnings (losses) of equity method investments	(532)	) 749
Income (loss) from continuing operations	(2,734)	) 1,919
Income from discontinued operations, net of tax	—	1,577
Net income (loss)	(2,734)	) 3,496
Net income attributable to noncontrolling interests	—	(48
Net income (loss) attributable to Brooks Automation, Inc.	\$(2,734)	) \$3,448
Basic net income (loss) per share attributable to Brooks Automation, Inc. common stockholders:		
Net income (loss) from continuing operations	\$(0.04	) \$0.03
Net income from discontinued operations, net of tax	—	0.02
Basic net income (loss) per share attributable to Brooks Automation, Inc.	\$(0.04	) \$0.05
Diluted net income (loss) per share attributable to Brooks Automation, Inc. common stockholders:		
Net income (loss) from continuing operations	\$(0.04	) \$0.03
Net income from discontinued operations, net of tax	—	0.02
Diluted net income (loss) per share attributable to Brooks Automation, Inc.	\$(0.04	) \$0.05
Dividend declared per share	\$0.10	\$0.08

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Shares used in computing earnings (loss) per share:

Basic	67,126	66,355
Diluted	67,126	67,126

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

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BROOKS AUTOMATION, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (unaudited)  
 (In thousands)

	Three months ended December 31,	
	2014	2013
Net income (loss)	\$(2,734 )	\$3,496
Comprehensive income (loss):		
Change in cumulative translation adjustment	(4,142 )	(294 )
Change in unrealized loss on marketable securities	(65 )	(1 )
Change in fair value on cash flow hedges	—	105
Actuarial gain	22	11
Comprehensive income (loss)	(6,919 )	3,317
Comprehensive income attributable to noncontrolling interests	—	(48 )
Comprehensive income (loss) attributable to Brooks Automation, Inc.	\$(6,919 )	\$3,269

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)

	Three months ended December 31,	
	2014	2013
Cash flows from operating activities		
Net income (loss)	\$(2,734	) \$3,496
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,403	5,729
Impairment of intangible assets	—	398
Stock-based compensation	3,483	2,754
Amortization of premium on marketable securities	336	285
Undistributed losses (earnings) of equity method investments	532	(749
Deferred income tax provision (benefit)	(4,107	) 1,164
Loss on disposal of long-lived assets	2	4
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable	4,973	1,901
Inventories	(236	) 942
Prepaid expenses and other current assets	1,754	665
Accounts payable	2,117	(4,521
Deferred revenue	705	(3,250
Accrued warranty and retrofit costs	(290	) (528
Accrued compensation and benefits	(9,333	) 1,154
Accrued restructuring costs	519	51
Accrued expenses and other current liabilities	(1,089	) (1,022
Net cash provided by operating activities	3,035	8,473
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,576	) (1,015
Purchases of marketable securities	(22,269	) (26,082
Sale/maturity of marketable securities	32,201	18,595
Acquisition, net of cash acquired	(15,428	) —
Other investment	(2,500	) —
Decrease in restricted cash	—	177
Net cash used in investing activities	(9,572	) (8,325
Cash flows from financing activities		
Principal repayment of capital lease obligation	(121	) —
Common stock dividend paid	(6,731	) (5,391
Net cash used in financing activities	(6,852	) (5,391
Effects of exchange rate changes on cash and cash equivalents	(2,966	) 287
Net decrease in cash and cash equivalents	(16,355	) (4,956
Cash and cash equivalents, beginning of period	94,114	82,971
Cash and cash equivalents, end of period	\$77,759	\$78,015

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



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BROOKS AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

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

In the second quarter of fiscal year 2014, the Company determined that its Granville-Phillips Gas Analysis & Vacuum Measurement (“Granville-Phillips”) business met the criteria to be reported as a discontinued operation. As a result, the Company’s historical financial statements have been revised to present the operating results of the Granville-Phillips business as a discontinued operation. The results of operations from the Granville-Phillips business are presented as “Income from discontinued operations, net of tax” in the Consolidated Statements of Operations. The discussion in the notes to these consolidated financial statements, unless otherwise noted, relate solely to the Company’s continuing operations (See Note 3).

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, 2014 (the “2014 Annual Report on Form 10-K”).

Use of Estimates and Summary of Significant Accounting Policies

The preparation of 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are associated with accounts receivable, inventories, intangible assets other than goodwill, goodwill, long-lived assets, derivative financial instruments, deferred income taxes, warranty obligations, revenue recognized using the percentage of completion 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 become known.

The Company’s significant accounting policies are described in Note 2 in the 2014 Annual Report on Form 10-K.

Recently Enacted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an amendment to the accounting guidance for presentation of unrecognized tax benefits. The prior guidance related to unrecognized tax benefits did not explicitly address financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The amended guidance eliminates the existing diversity in practice in the presentation of unrecognized tax benefits in these instances. Under the amended guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction of a deferred tax asset when an operating loss carryforward, a similar tax loss or a tax credit carryforward exists, with limited exceptions. On October 1, 2014 the Company adopted this guidance, which had no impact on its financial position or results of operations.

In April 2014, the FASB issued an amendment to the accounting guidance for reporting discontinued operations. The amended guidance raises the threshold for disposals to qualify as a discontinued operation by requiring a component of an entity that is held for sale, or has been disposed of by sale, to represent a strategic shift that has or will have a major effect on operations and financial results. Under the amended guidance, a strategic shift could include the

disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of an entity. In addition, the new guidance allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation. The amended guidance is effective for fiscal years beginning on or after December 15, 2014. Early adoption is permitted for disposals, or classifications as held for sale, that have not been previously reported in financial statements. The Company has not considered this amended guidance in regard to the Granville-Phillips discontinued operation.

In May 2014, the FASB issued new accounting guidance for reporting revenue recognition. The guidance recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is

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expected to be received for those goods or services. The five step process may make it possible that more judgment and estimation is required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is not permitted. The Company is evaluating the impact that the adoption of this guidance will have on its financial position and results of operations. In January 2015, the FASB issued new accounting guidance to simplify income statement classification by removing the concept of extraordinary items from GAAP. As a result, items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. This guidance is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will have no impact on the Company's financial position and results of operations.

## 2. Stock-Based Compensation

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

The following table reflects stock-based compensation expense, excluding amounts related to discontinued operations, recorded during the three months ended December 31, 2014 and 2013 (in thousands):

	Three months ended December 31,	
	2014	2013
Restricted stock units	\$3,372	\$2,610
Employee stock purchase plan	111	113
	\$3,483	\$2,723

The fair value per share of a restricted stock unit is equal to the quoted price of the Company's common stock on the date of grant, net of estimated forfeitures. The expense related to these awards is being recorded ratably over the vesting period. 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.

The Company grants restricted stock units that vest over a required service period and awards where vesting is dependent upon achieving certain operating performance goals. Restricted stock units granted with performance goals also have a required service period. The following table reflects restricted stock units granted, including awards related to the discontinued operation, during the three months ended December 31, 2014 and 2013:

	Total Units	Time-Based Units	Performance-Based Units
Three months ended December 31, 2014	1,375,500	551,250	824,250
Three months ended December 31, 2013	1,332,000	523,875	808,125

### Time-based Grants

Units granted with a required service period typically have three year vesting schedules in which, subject to the award holder meeting service requirements, one-third vest at the first anniversary of the date of grant, one-third vest at the second anniversary of the date of grant and one-third vest at the third anniversary of the date of grant, except that time-based awards granted to the Company's Board of Directors vest immediately.

### Performance-based Grants

Performance-based units have performance criteria established by the Company's Human Resources and Compensation Committee and the Board of Directors. The criteria for performance-based awards are weighted and have minimum performance thresholds, which if not met result in no vesting as to that metric's weighted percentage. Performance-based awards granted in fiscal year 2014 included provisions where participants could achieve up to 200% of the targeted number of performance-based awards if the Company's performance exceeds the target. The measurement of achievement against performance-based units granted in fiscal year 2014 occurred at the end of fiscal year 2014 to determine the number of earned units eligible for subsequent vesting, in which one-half vest at the

second anniversary of the date of grant and one-half vest at the third anniversary of the date of grant, subject to the award holder meeting service requirements.

The Company exceeded the fiscal year 2014 financial objectives associated with the performance-based awards which were granted in the first quarter of fiscal year 2014. Under the terms of the award, a total of 1,250,169 units could vest, subject

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to award holders satisfying the service requirement, which is an increase of 442,044 units over the target grant. Units granted to the employees of Granville-Phillips were forfeited upon completion of the sale.

Performance-based awards granted in fiscal year 2015 included provisions where participants could achieve up to 200% of the targeted number of performance-based awards if the Company's performance exceeds the target objectives.

Sixty percent of the performance-based units granted in fiscal year 2015 have certain performance criteria to be measured at the end of fiscal year 2015 to determine the number of earned units, in which one-half vest at the second anniversary of the date of grant and one-half vest at the third anniversary of the date of grant, subject to the award holder meeting service requirements. Forty percent of the performance-based units granted in fiscal year 2015 have certain performance criteria to be measured over a three year period to be measured at the end of fiscal year 2017 with any earned units vesting at the third anniversary of the date of the grant, subject to award holders satisfying the service requirement.

**Stock Option Activity**

The following table summarizes stock option activity for the three months ended December 31, 2014:

	Number of Options	Weighted- Average Remaining Contractual Term	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)
Outstanding at September 30, 2014	5,550		\$ 13.20	
Forfeited/expired	—		—	
Outstanding at December 31, 2014	5,550	0.1 years	\$ 13.20	\$—
Vested at December 31, 2014	5,550	0.1 years	\$ 13.20	\$—
Options exercisable at December 31, 2014	5,550	0.1 years	\$ 13.20	\$—

Based on the Company's closing stock price of \$12.75 as of December 31, 2014, there was no intrinsic value to the option holders.

No stock options were granted during the three months ended December 31, 2014 or 2013. There were no stock option exercises in the three months ended December 31, 2014 or 2013.

As of December 31, 2014, there was no future compensation cost related to stock options as all outstanding stock options have vested.

**Restricted Stock Unit Activity**

The following table summarizes restricted stock unit activity for the three months ended December 31, 2014:

	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Outstanding at September 30, 2014	2,726,485	\$ 11.05
Restricted stock units granted	1,375,500	11.94
Restricted stock units vested	(577,021)	) 11.92
Restricted stock units canceled	(206,083)	) 9.80
Outstanding at December 31, 2014	3,318,881	\$ 11.90

The fair value of restricted stock units vested during the three months ended December 31, 2014 and 2013 was \$6.9 million and \$3.1 million, respectively.

As of December 31, 2014, the unrecognized compensation cost related to restricted stock units that is expected to vest is \$27.0 million and will be recognized over an estimated weighted average service period of 2.1 years.

**Employee Stock Purchase Plan**

There were no shares purchased under the employee stock purchase plan during the three months ended December 31, 2014 and 2013.





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## 3. Discontinued Operations

The Granville-Phillips business unit developed, manufactured, sold and serviced vacuum measurement and gas analysis instrumentation to semiconductor and non-semiconductor customers. In March 2014, the Company entered into an agreement to sell this business for \$87.0 million in cash. The sale was completed on May 30, 2014. The Company's historical financial statements have been revised to present the operating results of the Granville-Phillips business as a discontinued operation. Summarized results of the discontinued operation are as follows (in thousands):

	Three months ended	
	December 31, 2014	December 31, 2013
Revenue	\$—	\$ 7,515
Income from discontinued operations	\$—	\$ 2,484
Income tax provision	—	907
Income from discontinued operations, net of tax	\$—	\$ 1,577

The presentation of the Granville-Phillips business as a discontinued operation had no impact on previously reported net income (loss) or stockholders' equity.

## 4. Acquisitions

## Acquisitions Completed in Fiscal Year 2015

On October 1, 2014, the Company acquired all of the outstanding stock of FluidX Ltd. ("FluidX"), a UK based provider of biological sample storage tubes and complementary bench-top instruments. The Company paid, in cash, aggregate merger consideration of \$15.4 million, net of cash acquired. The acquisition of FluidX provides the Company with the opportunity to enhance its existing capabilities with respect to biobanking solutions in the Brooks Life Science Systems segment.

The Company recorded the assets and liabilities associated with FluidX at their fair values as of the acquisition date.

The preliminary amounts recorded were as follows (in thousands):

Accounts receivable	\$ 1,980
Inventory	3,177
Prepaid and other current assets	213
Property, plant and equipment	101
Completed technology	1,230
Trademarks and trade names	750
Customer relationships	4,810
Goodwill	7,850
Accounts payable	(2,079 )
Deferred revenue	(72 )
Accrued liabilities	(992 )
Long-term deferred tax liabilities	(1,540 )
Total purchase price, net of cash acquired	\$ 15,428

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

At December 31, 2014 the Company had \$2.3 million in escrow related to potential working capital adjustments. The Company has not yet completed the final allocation of the consideration in connection with the acquisition of FluidX, but expects to do so in the measurement period.

The Company used the relief-from-royalty method, a form of the income approach, to value the trademarks and existing technology acquired. The principle behind this method is that the value of an intangible asset is equal to the present value of the after-tax royalty savings attributable to owning that intangible assets. The Company used the excess-earnings method, a form of the income approach, to value the customer relationships acquired. The principle behind this method is that the value of the intangible asset is equal to the present value of the after-tax cash flows

attributable to the intangible asset only.

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The weighted average amortization periods for intangible assets acquired in the FluidX acquisition are 7.0 years for each of completed technology, trademarks, and customer relationships. The intangible assets acquired will be amortized using an accelerated depreciation method which approximates the pattern in which the economic benefits are expected to be realized.

Goodwill represents the excess of the consideration transferred over the net assets acquired and has been assigned to the Company's Brooks Life Science Systems segment. Goodwill is primarily the result of expected synergies from combining the operations of FluidX with the Company. Goodwill arising from the acquisition of FluidX is not deductible for tax purposes.

The operating results of FluidX have been included in the results of operations for the Brooks Life Science Systems segment from the date of the acquisition. Revenue from FluidX for the quarter ended December 31, 2014 was \$3.6 million and the net loss was \$0.5 million. The net loss includes charges to expense of \$1.0 million related to the step-up in value of the acquired inventories and \$0.3 million of amortization expense.

#### Acquisitions Completed in Fiscal Year 2014

On April 30, 2014, the Company acquired all the outstanding stock of Dynamic Micro Systems Semiconductor Equipment GmbH ("DMS"), a German provider of automated contamination control solutions for front opening unified pod, or "FOUP," carriers and reticle storage, targeted at improving yield of semiconductor processes at semiconductor fabrication plants. The Company paid, in cash, aggregate merger consideration of \$31.6 million, net of cash acquired. The acquisition of DMS expanded the Company's capabilities at semiconductor fabrication plants for yield improvement on new technology nodes.

The Company recorded the assets and liabilities associated with DMS at their fair values as of the acquisition date.

The preliminary amounts recorded were as follows (in thousands):

Accounts receivable	\$ 15,262	
Inventory	9,750	
Prepaid and other current assets	2,727	
Property, plant and equipment	2,049	
Completed technology	3,610	
Customer relationships	7,100	
Goodwill	11,939	
Accounts payable	(10,393)	)
Accrued liabilities	(5,522)	)
Deferred revenue	(1,309)	)
Long-term deferred tax liabilities	(3,588)	)
Total purchase price, net of cash acquired	\$31,625	

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

The Company reached settlement on certain working capital adjustments and other issues with the sellers of DMS' stock in the fourth quarter of fiscal year 2014. As a result of this settlement, the Company received \$2.2 million in the first quarter of fiscal year 2015 from certain escrows established at the date of acquisition. At December 31, 2014, \$3.0 million remained in escrow related to potential future claims against the sellers of DMS' stock. The Company has not yet completed the final allocation of the consideration paid in connection with the acquisition of DMS with respect to matters associated with the balances held in escrow and the potential impact of these matters on deferred tax liabilities. However, the Company expects to complete the final allocation within the measurement period.

The Company used the relief-from-royalty method, a form of the income approach, to value the completed technology acquired. The principle behind this method is that the value of an intangible asset is equal to the present value of the after-tax royalty savings attributable to owning that intangible asset. The Company used the excess-earnings method, a form of the income approach, to value the customer relationships acquired. The principle behind this method is that the value of the intangible asset is equal to the present value of the after-tax cash flows attributable to the intangible asset only. The weighted average amortization periods for intangible assets acquired in the DMS acquisition are 5.0

years for completed technologies and 8.0 years for customer relationships. The intangible assets acquired will be amortized using methods that approximate the pattern in which the economic benefits are expected to be realized, including variable declining balance and straight-line methods.

Goodwill represents the excess of the consideration transferred over the net assets acquired and has been assigned to the Company's Brooks Product Solutions segment. Goodwill is primarily the result of expected synergies from combining the operations of DMS with the Company. Goodwill arising from the acquisition of DMS is not deductible for tax purposes. In the first quarter of fiscal year 2015, the Company increased the opening goodwill balance by \$0.3 million as a result of a fair value

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adjustment recorded to inventory.

The operating results of DMS have been included in the results of operations for the Brooks Product Solutions segment from the date of the acquisition. Revenue from DMS for the three months ended December 31, 2014 was \$7.2 million and the net loss was \$0.3 million. The net loss for the three months ended December 31, 2014 includes charges to expense of \$0.6 million related to the step-up in value of the acquired inventories, amortization of acquired intangible assets of \$0.6 million and restructuring charges of \$0.3 million.

The following pro forma summary presents consolidated information of the Company as if the acquisition of DMS occurred on October 1, 2013 (in thousands):

	Three months ended December 31, 2013
Revenue	\$119,445
Net loss attributable to Brooks Automation, Inc.	(607 )

The pro forma net loss has been adjusted to reflect additional amortization from adjustments to intangible assets as if those adjustments had been applied as of October 1, 2013.

#### 5. Goodwill and Intangible Assets

Goodwill represents the excess of net book value over the estimated fair value of net tangible and identifiable intangible assets of a reporting unit. The Company performs an annual impairment test of its goodwill on September 30 of each fiscal year unless interim indicators of impairment exist. The Company did not identify any indicators of goodwill impairment during the three month period ended December 31, 2014 that would warrant an interim test.

The components of the Company's goodwill, excluding amounts related to the discontinued operations, by business segment at December 31, 2014 are as follows (in thousands):

	Brooks Product Solutions	Brooks Global Services	Brooks Life Science Systems	Other	Total
Gross goodwill at September 30, 2014	\$494,275	\$156,792	\$47,378	\$26,014	\$724,459
Less: aggregate impairment charges recorded	(437,706 )	(151,238 )	—	(26,014 )	(614,958 )
Goodwill, less accumulated impairments at September 30, 2014	56,569	5,554	47,378	—	109,501
Acquisitions and adjustments during the three months ended December 31, 2014	301	—	7,850	—	8,151
Goodwill, less accumulated impairments at December 31, 2014	\$56,870	\$5,554	\$55,228	\$—	\$117,652

Components of the Company's identifiable intangible assets, excluding amounts related to the discontinued operations, are as follows (in thousands):

	December 31, 2014			September 30, 2014		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	\$7,808	\$7,326	\$482	\$7,808	\$7,300	\$508
Completed technology	58,326	42,716	15,610	57,155	41,539	15,616
Trademarks and trade names	4,242	3,536	706	3,496	3,496	—
Customer relationships	77,606	31,682	45,924	73,389	29,963	43,426
	\$147,982	\$85,260	\$62,722	\$141,848	\$82,298	\$59,550

The Company recorded an increase to goodwill in the amount of \$8.2 million during the three months ended December 31, 2014. The increase relates to the acquisition of FluidX in the amount of \$7.9 million, representing the excess of the consideration transferred over the net assets acquired from FluidX. The remaining increase is due to a fair value adjustment recorded to DMS inventory, resulting in a \$0.3 million increase to opening goodwill.

The Company is required to test certain long-lived assets when indicators of impairment are present. The Company evaluated the existence of impairment indicators on long-lived assets for the three months ended December 31, 2014 and determined that the indicators were not present. The Company initially determined that impairment indicators were present for the long-lived assets related to the Celigo product line as of September 30, 2013. The long-lived assets in question were tested

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for recoverability, which resulted in the conclusion that the carrying amounts of the assets were not fully recoverable. As a result of this analysis, management determined that an impairment loss of \$2.0 million had occurred as of September 30, 2013. The Company revised its estimate of the fair value of these assets during the three months ended December 31, 2013 and determined that an additional impairment loss of \$0.4 million, representing the remaining carrying value of the long-lived assets, was required. These impairment losses were recorded in the Brooks Life Science Systems segment. The Company completed the sale of the Celigo product line in the second quarter of fiscal year 2014.

## 6. Income Taxes

The Company recorded an income tax benefit of \$3.1 million for the three months ended December 31, 2014. The tax benefit is driven by U.S. pre-tax losses in the current quarter, \$0.6 million of reductions in unrecognized tax benefits resulting from the expiration of the statute of limitations in various foreign jurisdictions and \$0.9 million of tax benefits resulting from the reinstatement of the U.S. federal research and development tax credit, retroactive to January 1, 2014. These benefits are partially offset by foreign income taxes and interest related to unrecognized tax benefits.

The Company recorded an income tax provision of \$0.8 million for the three months ended December 31, 2013. This tax provision substantially consists of U.S. and foreign income taxes, as well as interest related to unrecognized tax benefits.

The Company evaluates the realizability of its deferred tax assets by jurisdiction and assesses the need for a valuation allowance on a quarterly basis. As of December 31, 2014, the Company has continued to maintain a valuation allowance in the U.S. against certain tax credits and state net operating losses due to the uncertainty of their realization based on long-term Company forecasts and the expiration dates on these attributes. The Company has also continued to maintain a valuation allowance in certain jurisdictions that have not generated historical cumulative profitability. The Company is subject to U.S. federal income tax and various state, local and foreign income taxes in various jurisdictions. The amount of income taxes paid is subject to the Company's interpretation of applicable tax laws in the jurisdictions in which it files. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company has income tax audits in progress in various jurisdictions in which it operates. In the Company's U.S. and foreign jurisdictions, the years that may be examined vary, with the earliest tax year being 2008. Based on the outcome of these examinations, or the expiration of statutes of limitations for specific jurisdictions, the related unrecognized tax benefits could change from those recorded in the Company's Consolidated Balance Sheets. It is reasonably possible that the unrecognized tax benefit will be reduced by an amount in the range between \$1.3 million and \$2.4 million during the next twelve months as the result of the expiration of statutes of limitations and the settlement of foreign income tax audits.

## 7. Earnings per Share

Below is a reconciliation of weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share (in thousands):

	Three months ended December 31,	
	2014	2013
Weighted average common shares outstanding used in computing basic earnings per share	67,126	66,355
Dilutive common stock options and restricted stock units	—	771
Weighted average common shares outstanding for purposes of computing diluted earnings per share	67,126	67,126

Options to purchase approximately 6,000 and 16,000 shares of common stock and 513,000 and 0 restricted stock units were excluded from the computation of diluted earnings per share attributable to common stockholders for the three months ended December 31, 2014 and 2013, respectively, as their effect would be anti-dilutive. All outstanding stock options and unvested shares of restricted stock units were excluded from the computation of diluted earnings per share for the three months ended December 31, 2014 as a result of the net loss for that period.

## 8. Segment Information

The Company reports financial results in three segments: Brooks Product Solutions, Brooks Global Services and Brooks Life Science Systems. A description of segments is included in the 2014 Annual Report on Form 10-K, included in Note 18.

The Company evaluates the performance of, and allocates resources to, each of its segments based on their revenues, operating income (loss) and returns on invested assets. Operating income (loss) for each segment includes selling, general and



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administrative expenses directly attributable to the segment. Other unallocated corporate expenses, amortization of acquired intangible assets (excluding completed technology) and restructuring and other charges are excluded from the segments' operating income (loss). The Company's indirect overhead costs, which include various general and administrative expenses, are allocated among the segments based upon multiple cost drivers associated with the respective administrative function, including segment revenue, segment headcount, or an analysis of the segments that benefit from a specific administrative function. Segment assets exclude cash, cash equivalents, marketable securities, deferred tax assets and equity method investments.

Financial information for the Company's business segments, excluding amounts related to the discontinued operations, is as follows (in thousands):

	Brooks Product Solutions	Brooks Global Services	Brooks Life Science Systems	Total
Three months ended December 31, 2014				
Revenue				
Product	\$82,856	\$4,108	\$12,766	\$99,730
Services	—	19,089	3,917	23,006
	\$82,856	\$23,197	\$16,683	\$122,736
Gross profit	\$26,922	\$8,463	\$3,703	\$39,088
Segment operating income (loss)	\$462	\$3,553	\$(5,516)	\$(1,501)
Three months ended December 31, 2013				
Revenue				
Product	\$81,556	\$3,439	\$8,135	\$93,130
Services	—	19,880	4,062	23,942
	\$81,556	\$23,319	\$12,197	\$117,072
Gross profit	\$28,501	\$7,825	\$4,565	\$40,891
Segment operating income (loss)	\$4,328	\$2,843	\$(3,475)	\$3,696
Assets				
December 31, 2014	\$246,542	\$54,809	\$117,559	\$418,910
September 30, 2014	\$252,944	\$58,678	\$103,498	\$415,120

A reconciliation of the Company's reportable segment operating income (loss) to the corresponding consolidated amounts for the three months ended December 31, 2014 and 2013 is as follows (in thousands):

	Three months ended December 31,	
	2014	2013
Segment operating income (loss)	\$(1,501)	\$3,696
Amortization of acquired intangible assets	1,912	1,456
Restructuring and other charges	2,668	747
Other unallocated corporate expenses	399	35
Total operating income (loss)	\$(6,480)	\$1,458

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A reconciliation of the Company's reportable segment assets to the corresponding consolidated amounts as of December 31, 2014 and September 30, 2014 is as follows (in thousands):

	December 31, 2014	September 30, 2014
Segment assets	\$418,910	\$ 415,120
Cash, cash equivalents and marketable securities	218,695	245,456
Deferred tax assets	90,487	86,572
Equity method investments	27,197	28,944
Other unallocated corporate net assets	1,858	1,946
Total assets	\$757,147	\$ 778,038

#### 9. Significant Customers

The Company had one customer that accounted for more than 10% of its revenue, at 13%, in each of the three months ended December 31, 2014 and 2013. The Company did not have any customers that accounted for more than 10% of its accounts receivable balance at December 31, 2014 or September 30, 2014.

For purposes of determining the percentage of revenue from any original equipment manufacturer ("OEM") customer, the Company does not include revenue from products sold to a contract manufacturer customer which in turn sells to the OEM. If the Company included revenue from products sold to contract manufacturer customers supporting the Company's OEM customers, the percentage of the Company's total revenue derived from certain OEM customers would be higher.

#### 10. Restructuring and Other Charges

The Company recorded restructuring charges of \$2.7 million for the three months ended December 31, 2014. These restructuring charges relate primarily to severance costs of \$1.5 million and facility exit related costs of \$1.2 million. The severance charges are related to an initiated restructuring plan to reduce the Company's workforce in order to improve the Company's cost structure and ongoing cost discipline. The reduction in workforce was primarily a result of consolidation of positions in the United States and Germany, including reductions related to the integration of the Company's acquisition of DMS.

The facility exit costs are due to the outsourcing of manufacturing certain of the Company's line of Polycold cryochillers and compressors within the United States to a third party contract manufacturer. The facility costs were estimated according to future lease payments and expected operating costs to be paid throughout the termination of the facility lease.

The Company recorded a restructuring charge of \$0.7 million for the three months ended December 31, 2013. These restructuring costs consisted primarily of severance and other workforce-related costs resulting from the consolidation of certain administrative functions in the Brooks Life Science Systems segment, the on-going transition of manufacturing of the Company's Polycold products to a third party contract manufacturer and other programs designed to improve the Company's cost structure.

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The activity for the three months ended December 31, 2014 and 2013 related to the Company's restructuring-related accruals, excluding amounts related to the discontinued operations, is summarized below (in thousands):

	Activity — Three months ended December 31, 2014			
	Balance at September 30, 2014	Expense	Utilization	Balance at December 31, 2014
Facilities and other	\$71	\$1,205	\$(101 )	\$1,175
Workforce-related	3,404	1,463	(2,114 )	2,753
	\$3,475	\$2,668	\$(2,215 )	\$3,928

  

	Activity — Three months ended December 31, 2013			
	Balance at September 30, 2013	Expense	Utilization	Balance at December 31, 2013
Facilities and other	\$155	\$6	\$(104 )	\$57
Workforce-related	1,257	741	(593 )	1,405
	\$1,412	\$747	\$(697 )	\$1,462

The Company anticipates that the accrued restructuring costs at December 31, 2014 will be substantially paid in the next twelve months.

#### 11. Employee Benefit Plans

The Company has two active defined benefit pension plans (collectively, the "Plans"). The Plans cover substantially all of the Company's employees in Switzerland and Taiwan. Retirement benefits are generally earned based on years of service and compensation during active employment; however, the level of benefits varies within the Plans. Eligibility is determined in accordance with local statutory requirements.

The components of the Company's net pension cost for the three months ended December 31, 2014 and 2013 are as follows (in thousands):

	Three months ended December 31,	
	2014	2013
Service cost	\$119	\$100
Interest cost	31	39
Amortization of losses	—	1
Expected return on assets	(53 )	(53 )
Net periodic pension cost	\$97	\$87

#### 12. Other Balance Sheet Information

The following is a summary of accounts receivable at December 31, 2014 and September 30, 2014 (in thousands):

	December 31, 2014	September 30, 2014
Accounts receivable	\$76,883	\$81,270
Less allowance for doubtful accounts	(1,082 )	(1,031 )
Less allowance for sales returns	(126 )	(133 )
	\$75,675	\$80,106

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The following is a summary of inventories at December 31, 2014 and September 30, 2014, excluding amounts related to discontinued operations (in thousands):

	December 31, 2014	September 30, 2014
Inventories		
Raw materials and purchased parts	\$58,034	\$57,250
Work-in-process	20,538	20,068
Finished goods	16,364	16,249
	\$94,936	\$93,567

Reserves for excess and obsolete inventory were \$25.9 million and \$26.0 million, excluding amounts related to discontinued operations, at December 31, 2014 and September 30, 2014, respectively.

The Company provides for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized and retrofit accruals at the time retrofit programs are established. The Company's warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company.

Product warranty and retrofit activity on a gross basis for the three months ended December 31, 2014 and 2013, excluding amounts related to discontinued operations, is as follows (in thousands):

Activity - Three months ended December 31, 2014

Balance at September 30, 2014	Adjustments for Acquisitions and Divestitures	Accruals	Costs Incurred	Balance at December 31, 2014
\$6,499	\$ 81	\$2,717	\$(3,042	) \$6,255

Activity - Three months ended December 31, 2013

Balance at September 30, 2013	Adjustments for Acquisitions and Divestitures	Accruals	Costs Incurred	Balance at December 31, 2013
\$7,260	\$ —	\$1,875	\$(2,373	) \$6,762

### 13. Equity Method Investments

The Company accounts for certain of its investments using the equity method. Under this method of accounting, the Company records in income its proportionate share of the earnings (losses) of the investee with a corresponding increase (decrease) in the carrying value of the investment.

#### BioCision, LLC

In March 2014, the Company acquired a 22% equity interest in BioCision, LLC ("BioCision"), a privately-held company based in Larkspur, California, for \$4.0 million. BioCision develops, manufactures and markets cell cryopreservation products used to improve and standardize the tools and methods for biomaterial sample handling. The Company determined that the level of equity investment at risk was not sufficient for BioCision to finance its activities without additional financial support and as a result, represented a variable interest entity. However, the Company does not have the power to direct the activities that most significantly impact BioCision's economic performance, and therefore does not qualify as the primary beneficiary.

For the three months ended December 31, 2014, the Company recorded a loss associated with BioCision of \$0.2 million. At December 31, 2014, the carrying value of the investment in BioCision in the Company's Consolidated Balance Sheet was \$3.5 million.

On December 22, 2014 the Company purchased BioCision five-year convertible debt securities with a warrant agreement to purchase preferred units of BioCision for a total of \$2.5 million. The convertible debt securities were accounted for under the fair value method, and were recorded at fair value. The warrant was accounted for as a derivative and was recorded at fair value. The Company will subsequently measure the fair value of the BioCision

convertible debt securities and warrant each reporting period, and the respective gain or loss will be recognized in earnings. Interest accrues on the convertible debt securities at a rate of 9% per annum, and is due with the principal upon maturity. Under this agreement with BioCision, the

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Company may provide additional financing up to \$2.5 million subject to its satisfaction that certain financial criteria are met. As a result of the funding, the Company reconsidered whether BioCision represents a variable interest entity. The Company concluded that the level of equity investment at risk is still insufficient for BioCision to finance its activities without additional support, thus will remain a variable interest entity. However, the Company still does not have the power to direct the activities that most significantly impact BioCision's economic performance, and therefore still does not qualify as the primary beneficiary. As such, the Company concluded that BioCision will not be consolidated in its financial statements. For further information regarding the convertible debt securities and warrant, see Note 17, "Fair Value Measurements".

**ULVAC Cryogenics, Inc.**

The Company participates in a 50% joint venture, ULVAC Cryogenics, Inc. ("UCI"), with ULVAC Corporation of Chigasaki, Japan. UCI manufactures and sells cryogenic vacuum pumps, principally to ULVAC Corporation. For the three months ended December 31, 2014 and 2013, the Company recorded income associated with UCI of \$0.3 million and \$0.8 million, respectively. At December 31, 2014, the carrying value of UCI in the Company's Consolidated Balance Sheet was \$21.9 million. For each of the three months ended December 31, 2014 and 2013, management fee payments received by the Company from UCI were \$0.2 million. For each of the three months ended December 31, 2014 and 2013, the Company incurred charges from UCI for products or services of \$0.1 million. At December 31, 2014 and September 30, 2014, the Company owed UCI \$61,000 and \$79,000, respectively, in connection with accounts payable for unpaid products and services.

**Yaskawa Brooks Automation, Inc.**

The Company participates in a 50% joint venture with Yaskawa Electric Corporation ("Yaskawa") called Yaskawa Brooks Automation, Inc. ("YBA") to exclusively market and sell Yaskawa's semiconductor robotics products and Brooks' automation hardware products to semiconductor customers in Japan. During the first quarter of fiscal year 2015, the Company and Yaskawa agreed in principle to dissolve the joint venture. Related to this planned dissolution, YBA assessed the recoverability of assets held in the event of dissolution and communicated an impairment in the carrying value of its assets to the equity partners. The Company recognized the fair value adjustment through the YBA earnings in the amount of \$0.7 million. Including these impairment charges, the Company recorded \$0.7 million of losses associated with YBA for the three months ended December 31, 2014, compared to losses of \$18,000, for the three months ended December 31, 2013. At December 31, 2014, the carrying value of YBA in the Company's Consolidated Balance Sheet was \$1.7 million. For the three months ended December 31, 2014 and 2013, revenue earned by the Company from YBA was \$1.1 million and \$0.7 million, respectively. For the three months ended December 31, 2014 and 2013, the Company incurred charges from YBA for products or services of \$0.4 million and \$0.1 million, respectively.

The amount due from YBA included in accounts receivable at December 31, 2014 and September 30, 2014 was \$1.5 million and \$2.1 million, respectively. At each of December 31, 2014 and September 30, 2014, the Company owed YBA \$0.1 million in connection with accounts payable for unpaid products and services. The Company expects the YBA dissolution to be completed within the second quarter of fiscal year 2015.

**14. Note Receivable**

In 2012, the Company provided a strategic partner (the "Borrower") a loan of \$3.0 million to support the Borrower's future product development and other working capital requirements. The loan bears interest at a rate of 9% and the outstanding principal and interest was payable in May 2015. The Company also received a warrant to purchase the Borrower's common stock in the event of an equity offering by the Borrower and certain other rights related to conversion of the loan, first refusal to acquire the Borrower and a redemption premium. The loan was secured by a security agreement granting the Company a first-priority security interest in all of the assets of the Borrower. The Company determined that the level of equity investment at risk was not sufficient for the entity to finance its activities without additional financial support and as a result, represented a variable interest entity. However, the Company does not have the power to direct the activities that most significantly impact the Borrower's economic performance and would not absorb the majority of the expected losses from the Borrower, and therefore does not qualify as the primary beneficiary. The Company has no future contractual funding commitments to the Borrower and

as a result, the Company's exposure to loss was limited to the outstanding principal and interest under the loan. During the third quarter of fiscal year 2014, the Borrower informed the Company of its intent to secure additional funding from an investment program funded by the Commonwealth of Massachusetts designed to support early-stage companies. In connection with the Borrower's efforts to secure additional financing, the Company agreed to subordinate its security interest in the assets of the Borrower to the new lender. Additionally, the Company agreed to extend the due date of its loan by approximately 5 years, to September 2019, in order to coincide with the due date of the new loan. The amended loan has a stated interest rate of 10%.

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In connection with its efforts to secure additional financial support, the Borrower developed revised assumptions about its future cash flows. Based on the information provided by the Borrower, and the subordination to the new lender, the Company determined it was probable that it would not recover all amounts due from the loan and recorded an impairment charge of \$2.6 million in the third quarter of fiscal year 2014. The impairment charge, which included the warrant write-off, was recorded in the Consolidated Statements of Operations in selling, general and administrative expenses.

The fair value of the loan was determined by considering the fair value of the collateral using valuation techniques, principally the discounted cash flow method, less amounts committed by the new lender. The observable inputs used in the Company's analysis were limited primarily to the discount rate, which was based on a rate commensurate with the risks and uncertainties of the Borrower. As a result, the fair value of the loan at December 31, 2014, which the Company currently estimates to be \$1.0 million, could be different under different conditions or different assumptions, including the varying assumptions regarding future cash flows of the Borrower or discount rates.

#### 15. 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. These transactions and balances, including short-term advances between the Company and its subsidiaries, subject the Company's operations to exposure from exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. The Company mitigates the impact of potential currency translation gains and losses on short-term intercompany advances through timely settlement of each transaction, generally within 30 days.

The Company also enters into foreign exchange contracts to reduce its exposure to currency translation. Under forward contract arrangements, the Company typically agrees to purchase a fixed amount of U.S. dollars in exchange for a fixed amount of a foreign currency on specified dates with maturities of three months or less. These transactions do not qualify for hedge accounting.

Net gains and losses recorded as a component of "Other income, net" in the Consolidated Statements of Operations related to these contracts for the three months ended December, 2014 and 2013 is as follows (in thousands):

	Three months ended December 31,	
	2014	2013
Realized gains on derivative instruments not designated as hedging instruments	\$301	\$47



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The Company had the following notional amounts outstanding under foreign currency contracts that do not qualify for hedge accounting at December 31, 2014 and September 30, 2014 (in thousands):

December 31, 2014:

Buy Currency	Notional Amount of Buy Currency	Sell Currency	Maturity	Notional Amount of Sell Currency	Fair Value of Assets	Fair Value of Liabilities
U.S. Dollar	1,327	Japanese Yen	December 2014 to March 2015	160,000	\$—	\$1
British Pound	1,700	Euro	January 2015	1,326	—	6
U.S. Dollar	1,581	Euro	January 2015	1,300	—	31
U.S. Dollar	502	Taiwan Dollar	January 2015	16,000	—	1
U.S. Dollar	622	British Pound	January 2015	400	—	1
Korean Won	590,000	U.S. Dollar	January 2015	534	3	—
U.S. Dollar	199	Japanese Yen	January 2015	24,000	—	—
U.S. Dollar	762	Israeli Shekel	January 2015	3,000	—	2
					\$3	\$42

September 30, 2014:

Buy Currency	Notional Amount of Buy Currency	Sell Currency	Maturity	Notional Amount of Sell Currency	Fair Value of Assets	Fair Value of Liabilities
U.S. Dollar	1,736	Japanese Yen	October 2014 to December 2014	190,000	\$—	\$11
U.S. Dollar	1,395	Euro	October 2014	1,100	—	16
U.S. Dollar	656	Taiwan Dollar	October 2014	20,000	—	5
U.S. Dollar	650	British Pound	October 2014	400	—	5
U.S. Dollar	731	Israeli Shekel	October 2014	2,700	—	5
U.S. Dollar	76	Korean Won	October 2014	80,000	—	1
British Pound	3,513	Euro	October 2014	4,500	—	15
					\$—	\$58

The fair values of the forward contracts described above are recorded in the Company's Consolidated Balance Sheets as "Prepaid expenses and other current assets" and "Accrued expenses and other current liabilities".

#### Stock Warrant

The BioCision warrant agreement contains net share settlement provisions, which permit the Company to pay the warrant exercise price using shares issuable under the warrant ("cashless exercise"). The value of the stock warrant will fluctuate primarily in relation to the value of BioCision's underlying securities, either providing an appreciation in value or potentially expiring with no value. Gains and losses on the revaluation of the stock warrant is recognized in "Other income, net" on the Consolidated Statements of Income. See Note 17 "Fair Value Measurements" for further information regarding the fair value of the stock warrant.

#### 16. Marketable Securities

The Company invests in marketable securities and classifies them as available-for-sale. The Company records these securities at fair value. Marketable securities reported as current assets represent investments that mature within one year from the balance sheet date. Long-term marketable securities represent investments with maturity dates greater than one year from the balance sheet date. At the time that the maturity dates of these investments become one year or less, the securities are reclassified to current assets. Unrealized gains and losses are excluded from earnings and reported as a separate component of accumulated other comprehensive income until the security is sold or matures. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results.

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The following is a summary of marketable securities (included in short and long-term marketable securities in the Consolidated Balance Sheets), including accrued interest receivable, as of December 31, 2014 and September 30, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014:				
U.S. Treasury securities and obligations of U.S. government agencies	\$29,054	\$—	\$(45)	) \$29,009
Corporate securities	64,948	4	(198)	) 64,754
Mortgage-backed securities	937	31	—	968
Other debt securities	7,361	—	(9)	) 7,352
Municipal securities	18,800	1	(31)	) 18,770
Bank certificate of deposits	20,083	1	(1)	) 20,083
	\$141,183	\$37	\$(284)	) \$140,936
September 30, 2014:				
U.S. Treasury securities and obligations of U.S. government agencies	\$26,052	\$1	\$(39)	) \$26,014
Corporate securities	74,614	23	(174)	) 74,463
Mortgage-backed securities	964	36	—	1,000
Other debt securities	7,358	—	(10)	) 7,348
Municipal securities	15,888	1	(16)	) 15,873
Bank certificate of deposits	26,645	2	(3)	) 26,644
	\$151,521	\$63	\$(242)	) \$151,342

The fair value of the marketable securities at December 31, 2014 by contractual maturity, are shown below (in thousands):

	Fair Value
Due in one year or less	\$58,648
Due after one year through five years	78,958
Due after ten years	3,330
	\$140,936

Expected maturities could differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

#### 17. Fair Value Measurements

The fair value measurement guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: 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: Observable inputs other than Level 1 prices, such as 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: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2014 and September 30, 2014 are summarized as follows (in thousands):

Description	December 31, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$2,848	\$1,950	\$ 898	\$—
Available-for-sale securities	140,936	—	140,936	—
Foreign exchange contracts	3	—	3	—
Convertible debt securities	2,458	—	—	2,458
Stock warrant	40	—	—	40
Total Assets	\$146,285	\$1,950	\$ 141,837	\$2,498
Liabilities				
Foreign exchange contracts	\$42	\$—	\$ 42	\$—

The convertible debt securities and stock are included in "Other assets" in the Consolidated Balance Sheets.

Description	September 30, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 6,404	\$5,166	\$ 1,238	\$—
Available-for-sale securities	151,342	—	151,342	—
Total Assets	\$ 157,746	\$5,166	\$ 152,580	\$—
Liabilities				
Foreign exchange contracts	\$ 58	\$—	\$ 58	\$—

## Cash Equivalents

Cash equivalents of \$2.0 million and \$5.2 million at December 31, 2014 and September 30, 2014, respectively, consisting of Money Market Funds, are classified within Level 1 of the fair value hierarchy because they are valued using quote