

BRUKER CORP
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

For the quarterly period ended June 30, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

For the transition period from to

Commission File Number 000-30833

BRUKER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

04-3110160

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(State or other jurisdiction of
incorporation or organization)

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

40 Manning Road, Billerica, MA 01821

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(978) 663-3660**

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

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

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

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

Accelerated filer
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 issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 par value per share

Outstanding at August 1, 2014
168,056,129 shares

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BRUKER CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2014

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share and per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 389.8	\$ 438.7
Short-term investments	67.8	
Accounts receivable, net	279.6	307.6
Inventories	612.1	589.8
Other current assets	116.1	95.8
Total current assets	1,465.4	1,431.9
Property, plant and equipment, net	293.4	299.5
Intangibles, net and other long-term assets	245.1	256.9
Total assets	\$ 2,003.9	\$ 1,988.3
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 0.8	\$ 0.7
Accounts payable	102.2	74.8
Customer advances	223.5	258.6
Other current liabilities	302.0	314.5
Total current liabilities	628.5	648.6
Long-term debt	354.9	354.3
Other long-term liabilities	135.1	135.2
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$0.01 par value 5,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value 260,000,000 shares authorized, 168,097,995 and 167,619,039 shares issued and 168,056,129 and 167,579,204 shares outstanding at June 30, 2014 and December 31, 2013, respectively	1.7	1.7
Treasury stock, at cost, 41,866 and 39,835 shares at June 30, 2014 and December 31, 2013, respectively	(0.6)	(0.6)
Accumulated other comprehensive income	181.7	182.4
Other shareholders' equity	697.5	662.6
Total shareholders' equity attributable to Bruker Corporation	880.3	846.1

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Noncontrolling interest in consolidated subsidiaries	5.1	4.1
Total shareholders' equity	885.4	850.2
Total liabilities and shareholders' equity	\$ 2,003.9	\$ 1,988.3

The accompanying notes are an integral part of these statements.

Table of Contents**BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Product revenue	\$ 398.9	\$ 395.6	\$ 765.0	\$ 734.9
Service revenue	57.7	52.7	114.7	106.2
Other revenue	0.8	6.6	1.4	7.2
Total revenue	457.4	454.9	881.1	848.3
Cost of product revenue	217.2	217.0	424.3	402.3
Cost of service revenue	39.7	36.3	76.6	69.9
Total cost of revenue	256.9	253.3	500.9	472.2
Gross profit	200.5	201.6	380.2	376.1
Operating expenses:				
Selling, general and administrative	115.0	107.1	224.5	213.9
Research and development	44.5	46.5	90.5	95.9
Other charges, net	5.6	4.5	9.2	10.6
Total operating expenses	165.1	158.1	324.2	320.4
Operating income	35.4	43.5	56.0	55.7
Interest and other income (expense), net	(2.3)	(7.8)	(7.2)	(11.7)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	33.1	35.7	48.8	44.0
Income tax provision	16.3	12.4	22.0	15.0
Consolidated net income	16.8	23.3	26.8	29.0
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.4	0.4	1.7	0.7
Net income attributable to Bruker Corporation	\$ 16.4	\$ 22.9	\$ 25.1	\$ 28.3
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	\$ 0.10	\$ 0.14	\$ 0.15	\$ 0.17
Weighted average common shares outstanding:				
Basic	167.6	166.8	167.5	166.6
Diluted	169.5	168.4	169.4	168.2
Comprehensive income	\$ 13.3	\$ 28.3	\$ 26.4	\$ 5.4
Less: Comprehensive income attributable to noncontrolling interests	0.5	0.4	2.1	0.7
Comprehensive income attributable to Bruker Corporation	\$ 12.8	\$ 27.9	\$ 24.3	\$ 4.7

The accompanying notes are an integral part of these statements.

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

(in millions)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$ 26.8	\$ 29.0
Adjustments to reconcile consolidated net income to cash flows from operating activities:		
Depreciation and amortization	30.0	30.2
Write-down of demonstration inventories to net realizable value	15.2	16.0
Stock-based compensation expense	5.0	3.2
Deferred income taxes	0.3	(2.6)
Other non-cash expenses, net	1.2	(0.6)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	28.9	(20.9)
Inventories	(38.4)	(21.9)
Accounts payable and accrued expenses	8.9	(14.1)
Income taxes payable	8.8	(12.9)
Deferred revenue	1.9	5.0
Customer advances	(34.8)	(21.9)
Other changes in operating assets and liabilities, net	(22.3)	(13.4)
Net cash provided by (used in) operating activities	31.5	(24.9)
Cash flows from investing activities:		
Purchases of short-term investments	(67.8)	
Cash paid for acquisitions, net of cash acquired		(2.1)
Proceeds from disposal of product line	0.7	0.5
Purchases of property, plant and equipment	(16.8)	(31.1)
Proceeds from sales of property, plant and equipment	1.1	0.6
Net cash used in investing activities	(82.8)	(32.1)
Cash flows from financing activities:		
Repayment of other debt, net	(0.5)	(0.5)
Proceeds from issuance of common stock, net	4.8	4.5
Changes in restricted cash		(1.3)
Cash payments to noncontrolling interest	(1.1)	
Net cash provided by financing activities	3.2	2.7
Effect of exchange rate changes on cash and cash equivalents	(0.8)	(5.4)
Net change in cash and cash equivalents	(48.9)	(59.7)
Cash and cash equivalents at beginning of period	438.7	310.6
Cash and cash equivalents at end of period	\$ 389.8	\$ 250.9

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Bruker Corporation, together with its consolidated subsidiaries (Bruker or the Company), is a designer, manufacturer and distributor of proprietary life science and materials research systems and associated products that address the rapidly evolving needs of a diverse array of customers in life science, pharmaceutical, biotechnology, clinical and molecular diagnostics research, and materials and chemical analysis in various industries and government applications.

The Company has two reporting segments, *Bruker Scientific Instruments (BSI)*, which represents approximately 93% of the Company's revenues during the six months ended June 30, 2014, and *Bruker Energy & Supercon Technologies (BEST)*, which represents the remainder of the Company's revenues. Within BSI, the Company is organized into three operating segments: the Bruker BioSpin Group, the Bruker CALID Group and the Bruker MAT Group. For financial reporting purposes, the Bruker BioSpin, Bruker CALID and Bruker MAT operating segments are aggregated into the BSI reporting segment because each has similar economic characteristics, production processes, service offerings, types and classes of customers, methods of distribution and regulatory environments.

Bruker BioSpin- Bruker BioSpin designs, manufactures and distributes enabling life science tools based on magnetic resonance and preclinical imaging technologies. Bruker BioSpin's Magnetic Resonance division sells various systems utilizing magnetic resonance technology, including magnetic resonance imaging (MRI) systems, nuclear magnetic resonance systems (NMR), and electron paramagnetic resonance systems (EPR), as well as OEM MRI magnets sold to medical device manufacturers. Bruker BioSpin's Preclinical Imaging division sells single and multiple modality systems using MRI, position emission tomography (PET), single photon emission tomography (SPECT), computed tomography (CT), magnetic particle imaging (MPI) and optical imaging (fluorescence and bioluminescence) technologies to preclinical markets.

Bruker CALID (Chemicals, Applied Markets, Life Science, In-Vitro Diagnostics, Detection)- Bruker CALID designs, manufactures and distributes life science mass spectrometry instruments that can be integrated and used along with other sample preparation or chromatography instruments, as well as Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) detection products. Bruker CALID also designs, manufactures and distributes instruments based on Raman molecular spectroscopy technologies. Bruker CALID's mass spectrometry units are typically used in applications of expression proteomics, clinical proteomics, metabolic and peptide biomarker profiling, drug discovery and development, molecular diagnostics research, molecular and systems biology, basic molecular medicine research and clinical microbiology (for research use only outside the European Union).

Bruker MAT (Materials)- Bruker MAT designs, manufactures and distributes spectroscopy and microscopy instruments for the understanding of composition and structure in material science and life science samples. The instruments are based on advanced technologies in X-ray fluorescence spectroscopy (XRF), X-ray diffraction (XRD), X-ray micro computed tomography (μ CT), atomic force microscopy (AFM), stylus and optical metrology (SOM) and fluorescence microscopy (FM), and also include analytical tools for electron microscopes, handheld, portable, and mobile X-ray fluorescence, and spark optical emission spectroscopy systems.

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The Company's BEST reporting segment develops and manufactures superconducting and non-superconducting materials and devices for use in renewable energy, energy infrastructure, healthcare and big science research. The segment focuses on metallic low temperature superconductors for use in magnetic resonance imaging, nuclear magnetic resonance, fusion energy research and other applications, and ceramic high temperature superconductors primarily for energy grid and magnet applications.

The unaudited condensed consolidated financial statements represent the consolidated accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements as of June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013, have been prepared in accordance with accounting principles generally accepted in the United States

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(GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial information presented herein does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of the results expected for any other interim period or the full year.

At June 30, 2014, the Company's significant accounting policies and estimates, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, have not changed.

2. Stock-Based Compensation

The Company's awards of stock-based compensation are in the form of stock options and restricted stock. The Company recorded stock-based compensation expense as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	\$ 1.4	\$ 1.0	\$ 3.0	\$ 2.6
Restricted stock	1.6	0.4	2.0	0.6
Total stock-based compensation	\$ 3.0	\$ 1.4	\$ 5.0	\$ 3.2

Stock-based compensation expense is amortized on a straight-line basis over the underlying vesting terms of the stock-based award. Stock options to purchase the Company's common stock are periodically awarded to executive officers and other employees of the Company subject to a vesting period of three to five years. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions regarding volatility, expected life, dividend yield and risk-free interest rates are required for the Black-Scholes model and are presented in the table below:

	2014	2013
Risk-free interest rates	1.62%-2.10%	1.07%-2.03%
Expected life	6.0 - 6.3 years	6.5 years
Volatility	54.5% - 56.2%	54.9%
Expected dividend yield	0.0%	0.0%

Bruker Corporation Stock Plan

In May 2010, the Bruker Corporation 2010 Incentive Compensation Plan (the 2010 Plan) was approved by the Company's stockholders. The 2010 Plan provides for the issuance of up to 8,000,000 shares of the Company's common stock. The 2010 Plan allows a committee of the Board of Directors (the Committee) to grant incentive stock options, non-qualified stock options and restricted stock awards. The Committee has the authority to determine which employees will receive the awards, the amount of the awards and other terms and conditions of any awards. Awards granted by the Committee typically vest over a period of three to five years.

Stock option activity for the six months ended June 30, 2014 was as follows:

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	Shares Subject to Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value (in millions) (b)
Outstanding at December 31, 2013	4,877,564	\$ 13.12		
Granted	124,450	19.60		
Exercised	(478,956)	10.16		
Forfeited	(179,220)	19.27		
Outstanding at June 30, 2014	4,343,838	\$ 13.57	6.1	\$ 46.5
Exercisable at June 30, 2014	2,482,542	\$ 11.19	4.6	\$ 32.5
Exercisable and expected to vest at June 30, 2014 (a)	4,248,912	\$ 13.50	6.1	\$ 45.7

(a) In addition to the options that are vested at June 30, 2014, the Company expects a portion of the unvested options to vest in the future. Options expected to vest in the future are determined by applying an estimated forfeiture rate to the options that are unvested as of June 30, 2014.

(b) The aggregate intrinsic value is based on the positive difference between the fair value of the Company's common stock price of \$24.27 on June 30, 2014, or the date of exercises, as appropriate, and the exercise price of the underlying stock options.

Restricted stock activity for the six months ended June 30, 2014 was as follows:

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	357,948	\$ 16.65
Vested	(100,536)	20.94
Outstanding at June 30, 2014	257,412	\$ 14.98

At June 30, 2014, the Company expects to recognize pre-tax stock-based compensation expense of \$13.2 million associated with outstanding stock option awards granted under the Company's stock plans over the weighted average remaining service period of 2.3 years. In addition, the Company expects to recognize additional pre-tax stock-based compensation expense of \$3.0 million associated with outstanding restricted stock awards granted under the Company's stock plans over the weighted average remaining service period of 3.0 years.

3. Earnings Per Share

Net income per common share attributable to Bruker Corporation shareholders is calculated by dividing net income attributable to Bruker Corporation by the weighted-average shares outstanding during the period. The diluted net income per share computation includes the effect of shares which would be issuable upon the exercise of outstanding stock options and the vesting of restricted stock, reduced by the number of shares which are assumed to be purchased by the Company under the treasury stock method.

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The following table sets forth the computation of basic and diluted average shares outstanding (in millions, except per share amounts):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to Bruker Corporation, as reported	\$ 16.4	\$ 22.9	\$ 25.1	\$ 28.3
Weighted average shares outstanding:				
Weighted average shares outstanding-basic	167.6	166.8	167.5	166.6
Effect of dilutive securities:				
Stock options and restricted stock	1.9	1.6	1.9	1.6
	169.5	168.4	169.4	168.2
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	\$ 0.10	\$ 0.14	\$ 0.15	\$ 0.17

Stock options to purchase approximately 0.1 million shares and 0.3 million shares were excluded from the computation of diluted earnings per share in the three months ended June 30, 2014 and 2013, respectively, as their effect would have been anti-dilutive. Approximately 0.1 million shares and 0.3 million shares were excluded from the computation of diluted earnings per share in the six months ended June 30, 2014 and 2013, respectively.

4. Fair Value of Financial Instruments

The Company applies the following hierarchy to determine the fair value of financial instruments, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The levels in the hierarchy are defined as follows:

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The valuation techniques that may be used by the Company to determine the fair value of Level 2 and Level 3 financial instruments are the market approach, the income approach and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value based on current market expectations about those future amounts, including present value techniques, option-pricing models and the excess earnings method. The cost approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

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The following tables set forth the Company's financial instruments that are measured at fair value on a recurring basis and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at June 30, 2014 and December 31, 2013 (in millions):

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June 30, 2014	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 109.7	\$ 109.7	\$	\$
Short-term investments	67.8	67.8		
Restricted cash	3.1	3.1		
Embedded derivatives in purchase and delivery contracts	0.1		0.1	
Fixed price commodity contracts	0.1			