

BRUKER CORP
Form 10-Q
May 08, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

- 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
(State or other jurisdiction of
incorporation or organization)

04-3110160
(I.R.S. Employer
Identification No.)

Edgar Filing: BRUKER CORP - Form 10-Q

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 par value per share

Outstanding at May 1, 2015
168,870,601 shares

Table of Contents

BRUKER CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2015

Index

	Page
Part I	
FINANCIAL INFORMATION	
<u>Item 1:</u>	1
<u>Unaudited Condensed Consolidated Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	1
<u>Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014</u>	2
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014</u>	3
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	4
<u>Item 2:</u>	18
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3:</u>	27
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4:</u>	29
<u>Controls and Procedures</u>	29
Part II	29
OTHER INFORMATION	29
<u>Item 1:</u>	29
<u>Legal Proceedings</u>	29
<u>Item 1A:</u>	29
<u>Risk Factors</u>	29
<u>Item 2:</u>	29
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3:</u>	30
<u>Defaults Upon Senior Securities</u>	30
<u>Item 4:</u>	30
<u>Mine Safety Disclosure</u>	30
<u>Item 5:</u>	30
<u>Other Information</u>	30
<u>Item 6:</u>	30
<u>Exhibits</u>	30
<u>Signatures</u>	31

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)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 334.5	\$ 319.5
Short-term investments	157.8	178.0
Accounts receivable, net	227.6	293.2
Inventories	473.9	477.4
Other current assets	111.0	98.2
Total current assets	1,304.8	1,366.3
Property, plant and equipment, net	228.7	249.9
Intangibles, net and other long-term assets	239.2	248.6
Total assets	\$ 1,772.7	\$ 1,864.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 0.7	\$ 0.8
Accounts payable	87.1	76.0
Customer advances	185.6	189.5
Other current liabilities	267.1	316.4
Total current liabilities	540.5	582.7
Long-term debt	353.9	354.2
Other long-term liabilities	156.7	156.2
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, 168,926,527 and 168,582,988 shares issued and 168,870,601 and 168,527,584 shares outstanding at March 31, 2015 and December 31, 2014, respectively	1.7	1.7
Treasury stock, at cost, 55,926 and 55,404 shares at March 31, 2015 and December 31, 2014, respectively	(0.9)	(0.9)
Accumulated other comprehensive income (loss)	(36.0)	28.2
Other shareholders' equity	751.0	736.9
Total shareholders' equity attributable to Bruker Corporation	715.8	765.9

Edgar Filing: BRUKER CORP - Form 10-Q

Noncontrolling interest in consolidated subsidiaries	5.8	5.8
Total shareholders' equity	721.6	771.7
Total liabilities and shareholders' equity	\$ 1,772.7	\$ 1,864.8

The accompanying notes are an integral part of these statements.

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

(in millions, except per share data)

	Three Months Ended March 31,	
	2015	2014
Product revenue	\$ 298.0	\$ 366.1
Service revenue	54.1	57.0
Other revenue	1.4	0.6
Total revenue	353.5	423.7
Cost of product revenue	161.2	207.1
Cost of service revenue	31.9	36.9
Cost of other revenue	0.2	
Total cost of revenue	193.3	244.0
Gross profit	160.2	179.7
Operating expenses:		
Selling, general and administrative	94.6	109.5
Research and development	37.2	46.0
Other charges, net	13.2	3.6
Total operating expenses	145.0	159.1
Operating income	15.2	20.6
Interest and other income (expense), net	(3.5)	(4.9)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	11.7	15.7
Income tax provision	4.8	5.7
Consolidated net income	6.9	10.0
Net income attributable to noncontrolling interest in consolidated subsidiaries	0.4	1.3
Net income attributable to Bruker Corporation	\$ 6.5	\$ 8.7
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	\$ 0.04	\$ 0.05
Weighted average common shares outstanding:		
Basic	168.3	167.3
Diluted	169.7	169.4
Comprehensive income (loss)	\$ (57.7)	\$ 13.1
Less: Comprehensive income (loss) attributable to noncontrolling interests	0.4	1.6
Comprehensive income (loss) attributable to Bruker Corporation	\$ (58.1)	\$ 11.5

The accompanying notes are an integral part of these statements.

Table of Contents**BRUKER CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in millions)**

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	\$ 6.9	\$ 10.0
Adjustments to reconcile consolidated net income to cash flows from operating activities:		
Depreciation and amortization	13.5	15.2
Write-down of demonstration inventories to net realizable value	5.0	7.6
Stock-based compensation expense	2.2	2.0
Deferred income taxes	(3.7)	0.3
Gain on disposal of product line		(0.3)
Other non-cash expenses, net	7.3	1.0
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	51.5	12.8
Inventories	(36.6)	(38.0)
Accounts payable and accrued expenses	(6.8)	21.9
Income taxes payable, net	(6.9)	(6.0)
Deferred revenue	(3.1)	5.0
Customer advances	8.9	(7.6)
Other changes in operating assets and liabilities, net	(11.2)	(5.4)
Net cash provided by operating activities	27.0	18.5
Cash flows from investing activities:		
Purchase of short-term investments	(21.5)	
Maturity of short-term investments	21.5	
Proceeds from disposal of product line		0.7
Purchases of property, plant and equipment	(5.7)	(9.2)
Proceeds from sales of property, plant and equipment		0.6
Net cash used in investing activities	(5.7)	(7.9)
Cash flows from financing activities:		
Repayment of other debt, net	(0.1)	(0.2)
Proceeds from issuance of common stock, net	3.3	3.0
Payment of contingent consideration	(2.1)	
Changes in restricted cash	0.8	(0.3)
Excess tax benefits related to stock option awards	2.2	
Net cash provided by financing activities	4.1	2.5
Effect of exchange rate changes on cash and cash equivalents	(10.4)	2.2
Net change in cash and cash equivalents	15.0	15.3
Cash and cash equivalents at beginning of period	319.5	438.7
Cash and cash equivalents at end of period	\$ 334.5	\$ 454.0

The accompanying notes are an integral part of these statements.

Table of Contents

BRUKER CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Bruker Corporation, together with its consolidated subsidiaries (Bruker or the Company), 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 three months ended March 31, 2015, 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 Nano Group. For financial reporting purposes, the Bruker BioSpin, Bruker CALID and Bruker Nano 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.

Bruker Nano- Bruker Nano 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.

Edgar Filing: BRUKER CORP - Form 10-Q

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, as well as ceramic high temperature superconductors primarily for energy grid and magnet applications.

The unaudited condensed consolidated financial statements represent the consolidated accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014 have been prepared in accordance with accounting principles generally accepted in the United States (GAAP)

Table of Contents

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. Certain prior year amounts have been reclassified to conform to the current year presentation and had no effect on previously reported net income or cash flows.

At March 31, 2015, 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, 2014, 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 March 31,			
	2015		2014	
Stock options	\$	1.8	\$	1.6
Restricted stock		0.4		0.4
Total stock-based compensation	\$	2.2	\$	2.0

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:

	2015	2014
Risk-free interest rates	1.58%-1.71%	1.81%-2.04%
Expected life	6.0-6.3 years	6.0-6.3 years
Volatility	42.87%-52.23%	55.50%-56.24%
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.

Edgar Filing: BRUKER CORP - Form 10-Q

Awards granted by the Committee typically vest over a period of three to five years.

Stock option activity for the three months ended March 31, 2015 was as follows:

5

Edgar Filing: BRUKER CORP - Form 10-Q

Table of Contents

	Shares Subject to Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value (in millions) (b)
Outstanding at December 31, 2014	4,810,588	\$ 15.24		
Granted	106,824	19.19		
Exercised	(311,785)	11.18		
Forfeited	(47,361)	18.28		
Outstanding at March 31, 2015	4,558,266	\$ 15.58	6.4	\$ 16.6
Exercisable at March 31, 2015	2,365,718	\$ 12.71	4.8	\$ 14.0
Exercisable and expected to vest at March 31, 2015 (a)	4,431,098	\$ 15.49	6.4	\$ 16.4

(a) In addition to the options that are vested at March 31, 2015, 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 March 31, 2015.

(b) The aggregate intrinsic value is based on the positive difference between the fair value of the Company's common stock price of \$18.47 on March 31, 2015, or the date of exercises, as appropriate, and the exercise price of the underlying stock options.

The weighted average fair values of options granted was \$8.70 and \$10.52 per share for the quarter ended March 31, 2015 and 2014, respectively.

The total intrinsic value of options exercised was \$2.4 million and \$3.8 million for the quarter ended March 31, 2015 and 2014, respectively.

Restricted stock activity for the three months ended March 31, 2015 was as follows:

	Shares Subject to Restriction	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	309,725	\$ 17.20
Granted	31,754	19.40
Vested	(1,375)	16.57
Outstanding at March 31, 2015	340,104	\$ 17.41

The total fair value of restricted stock vested was \$0.0 million for the quarter ended March 31, 2015 and 2014, respectively.

At March 31, 2015, the Company expects to recognize pre-tax stock-based compensation expense of \$17.3 million associated with outstanding stock option awards granted under the Company's stock plans over the weighted average remaining service period of 2.2 years. In addition, the

Edgar Filing: BRUKER CORP - Form 10-Q

Company expects to recognize additional pre-tax stock-based compensation expense of \$4.7 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.

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
Net income attributable to Bruker Corporation, as reported	\$ 6.5	\$ 8.7
Weighted average shares outstanding:		
Weighted average shares outstanding-basic	168.3	167.3
Effect of dilutive securities:		
Stock options and restricted stock	1.4	2.1
	169.7	169.4
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	\$ 0.04	\$ 0.05

Stock options to purchase approximately 1.7 million shares and 0.1 million shares were excluded from the computation of diluted earnings per share in the three months ended March 31, 2015 and 2014, respectively, as their effect would have been anti-dilutive.

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,

Edgar Filing: BRUKER CORP - Form 10-Q

option-pricing models and the excess earnings method. The cost approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

The following tables set forth the Company's financial instruments that are measured at fair value on a recurring basis and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at March 31, 2015 and December 31, 2014 (in millions):

Table of Contents

March 31, 2015	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 69.0	\$ 69.0	\$	\$
Short-term investments	157.8	157.8		
Restricted cash	1.0	1.0		
Embedded derivatives in purchase and delivery contracts	1.7		1.7	
Long-term restricted cash	3.1	3.1		
Total assets recorded at fair value	\$ 232.6	\$ 230.9	\$ 1.7	\$
Liabilities:				
Contingent consideration	\$ 9.7	\$	\$	\$ 9.7
Foreign exchange contracts	7.8		7.8	
Embedded derivatives in purchase and delivery contracts	1.2		1.2	
Fixed price commodity contracts	0.2		0.2	
Total liabilities recorded at fair value	\$ 18.9	\$	\$ 9.2	\$ 9.7
December 31, 2014	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 67.9	\$ 67.9	\$	\$
Short-term investments	178.0	178.0		
Restricted cash	1.8	1.8		
Embedded derivatives in purchase and delivery contracts	0.6		0.6	
Long-term restricted cash	3.4	3.4		
Total assets recorded at fair value	\$ 251.7	\$ 251.1	\$ 0.6	\$
Liabilities:				
Contingent consideration	\$ 11.9	\$	\$	\$ 11.9
Foreign exchange contracts	5.1		5.1	
Embedded derivatives in purchase and delivery contracts	0.4		0.4	
Fixed price commodity contracts	0.2		0.2	
Total liabilities recorded at fair value	\$ 17.6	\$	\$ 5.7	\$ 11.9

The Company's financial instruments consist primarily of cash equivalents, short-term investments, restricted cash, derivative instruments consisting of forward foreign exchange contracts, commodity contracts, derivatives embedded in certain purchase and sale contracts, accounts receivable, short-term borrowings, accounts payable, contingent consideration and long-term debt. The carrying amounts of the Company's cash equivalents, short-term investments, restricted cash, accounts receivable, short-term borrowings and accounts payable approximate fair value due to their short-term nature. Derivative assets and liabilities are measured at fair value on a recurring basis. The Company's long-term debt consists principally of a private placement arrangement entered into in 2012 with various fixed interest rates based on the maturity date. The fair value of the long-term fixed interest rate debt, which has been classified as Level 2, was \$257.2 million at March 31, 2015 and December 31, 2014, based on market and observable sources with similar maturity dates.

Table of Contents

Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to remeasure any of its existing financial assets or liabilities and did not elect the fair value option for any financial assets or liabilities which originated during the three months ended March 31, 2015.

As part of certain acquisitions in prior years, the Company recorded contingent consideration liabilities that have been classified as Level 3 in the fair value hierarchy. The contingent consideration represents the estimated fair value of future payments to the former shareholders of applicable acquired companies based on achieving annual revenue targets and specific milestones in certain years as specified in the purchase and sale agreements. The Company initially valued the contingent consideration using the discounted cash flow method. Total contingent consideration liabilities were \$9.7 million as of March 31, 2015 and \$11.9 million as of December 31, 2014. Changes to the fair value of the contingent consideration recognized in earnings for the three months ended March 31, 2015 was \$0.1 million, and was recorded to other charges, net in the condensed consolidated statement of income and comprehensive income. There were no changes to the fair value of the contingent consideration recognized in earnings for the three months ended March 31, 2014. The following table sets forth the changes in contingent consideration liabilities for the three months ended March 31, 2015 (in millions):

Balance at December 31, 2014	\$	11.9
Current period adjustments		0.1
Current period settlements		(2.1)
Foreign currency effect		(0.2)
Balance at March 31, 2015	\$	9.7

During the second quarter of 2014, the Company commenced a program to enter into time deposits with varying maturity dates ranging from one to twelve months, as well as call deposits for which the Company has the ability to redeem the invested amounts over a period of 31 to 95 days. The Company has classified these investments within cash and cash equivalents or short-term investments within the condensed consolidated balance sheet based on the call and maturity dates.

Short-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains (losses) excluded from earnings and reported, net of tax, in accumulated other comprehensive income within the accompanying condensed consolidated balance sheet. There were no unrealized gains (losses) recorded during the three months ended March 31, 2015. On a quarterly basis, the Company reviews its short-term investments to determine if there have been any events that could create an impairment. None were noted for the three months ended March 31 2015.

5. Inventories

Inventories consisted of the following (in millions):

	March 31, 2015	December 31, 2014
Raw materials	\$ 164.3	\$ 159.5
Work-in-process	140.5	169.5
Finished goods	134.0	109.9

Edgar Filing: BRUKER CORP - Form 10-Q

Demonstration units		35.1		38.5
Inventories	\$	473.9	\$	477.4

Finished goods include in-transit systems that have been shipped to the Company's customers, but not yet installed and accepted by the customer. As of March 31, 2015 and December 31, 2014, inventory-in-transit was \$63.5 million and \$58.6 million, respectively.

The Company reduces the carrying value of its demonstration inventories for differences between its cost and estimated net realizable value through a charge to cost of product revenue that is based on a number of factors including the age of the unit, the physical condition of the unit and an assessment of technological obsolescence. Amounts recorded in cost of revenue related to the write-down of demonstration units to net realizable value were \$5.0 million and \$7.6 million for the three months ended March 31, 2015 and 2014, respectively.

Table of Contents**6. Goodwill and Other Intangible Assets**

The following table sets forth the changes in the carrying amount of goodwill for the three months ended March 31, 2015 (in millions):

Balance at December 31, 2014	\$	127.8
Current period adjustments		0.5
Foreign currency effect		(3.6)
Balance at March 31, 2015	\$	124.7

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

	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology and related patents	\$ 151.3	\$ (82.2)	\$ 69.1	\$ 149.8	\$ (81.7)	\$ 68.1
Customer relationships	11.4	(4.6)	6.8	13.4	(5.6)	7.8
Non compete contracts	1.8	(0.3)	1.5	1.8	(0.2)	1.6
Trade names	0.2	(0.2)		0.2	(0.2)	
Intangible assets subject to amortization	164.7	(87.3)	77.4	165.2	(87.7)	77.5
In-process research and development	0.6		0.6	6.3		6.3
Intangible assets	\$ 165.3	\$ (87.3)	\$ 78.0	\$ 171.5	\$ (87.7)	\$ 83.8

For each of the three months ended March 31, 2015 and 2014, the Company recorded amortization expense of \$5.2 million related to intangible assets subject to amortization.

7. Debt

The Company's debt obligations as of March 31, 2015 and December 31, 2014 consisted of the following (in millions):

	March 31, 2015	December 31, 2014
US Dollar revolving loan under the Amended Credit Agreement	\$ 112.5	\$ 112.5
US Dollar notes under the Note Purchase Agreement	240.0	240.0
Capital lease obligations and other loans	2.1	2.5
Total debt	354.6	355.0

Edgar Filing: BRUKER CORP - Form 10-Q

Current portion of long-term debt		(0.7)	(0.8)
Total long-term debt, less current portion	\$	353.9	\$ 354.2

In May 2011, the Company entered into an amendment to, and restatement of, its credit agreement, referred to as the Amended Credit Agreement. The Amended Credit Agreement provides a maximum commitment on the Company's revolving credit line of \$250.0 million and a maturity date of May 2016. Borrowings under the revolving credit line of the Amended Credit Agreement accrue interest, at the Company's option, at either (a) the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) adjusted LIBOR plus 1.00% or (b) LIBOR, plus margins ranging from 0.80% to 1.65%. There is also a facility fee ranging from 0.20% to 0.35%.

Borrowings under the Amended Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the Amended Credit Agreement, and Bruker Energy & Supercon Technologies, Inc. The Amended Credit Agreement also requires the Company to maintain certain financial ratios related to maximum leverage and minimum interest coverage. Specifically, the Company's leverage ratio cannot exceed 3.0 and the Company's interest coverage ratio cannot be less than 3.0. As of March 31, 2015, the Company was in compliance with the covenants of the Amended Credit Agreement. In addition to the financial ratios, the Amended Credit Agreement restricts, among other things, the Company's ability to do the following: make certain payments; incur additional debt; incur certain liens; make certain investments, including derivative agreements; merge, consolidate, sell or transfer all or substantially all of its assets; and enter into certain transactions with affiliates. Failure to comply with any of these restrictions or covenants may result in an event of default on the Amended Credit Agreement, which could permit acceleration of the debt and require the Company to prepay the debt before its scheduled due date.

Table of Contents

Other revolving lines of credit are with various financial institutions located primarily in Germany and Switzerland. These revolving lines of credit are typically uncommitted, used for performance bonds or guarantees and due upon demand with interest payable monthly or quarterly.

The following is a summary of the maximum commitments and the net amounts available to the Company under revolving loan and line of credit arrangements at March 31, 2015 (in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Lines of Credit	Total Amount Available
Amended Credit Agreement	1.3%	\$ 250.0	\$ 112.5	\$ 6.6	\$ 130.9
Other revolving lines of credit		234.4		130.2	104.2
Total revolving lines of credit		\$ 484.4	\$ 112.5	\$ 136.8	\$ 235.1

In January 2012, the Company entered into a note purchase agreement, referred to as the Note Purchase Agreement, with a group of accredited institutional investors. Pursuant to the Note Purchase Agreement, the Company issued and sold \$240.0 million of senior notes, referred to as the Senior Notes, which consist of the following:

- \$20 million 3.16% Series 2012A Senior Notes, Tranche A, due January 18, 2017;
- \$15 million 3.74% Series 2012A Senior Notes, Tranche B, due January 18, 2019;
- \$105 million 4.31% Series 2012A Senior Notes, Tranche C, due January 18, 2022; and
- \$100 million 4.46% Series 2012A Senior Notes, Tranche D, due January 18, 2024.

Under the terms of the Note Purchase Agreement, the Company may issue and sell additional senior notes up to an aggregate principal amount of \$600 million, subject to certain conditions. Interest on the Senior Notes is payable semi-annually on January 18 and July 18 of each year. The Senior Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed by certain of the Company's direct and indirect subsidiaries. The Senior Notes rank pari passu in right of repayment with the Company's other senior unsecured indebtedness. The Company may prepay some or all of the Senior Notes at any time in an amount not less than 10% of the original aggregate principal amount of the Senior Notes to be prepaid, at a price equal to the sum of (a) 100% of the principal amount thereof, plus accrued and unpaid interest, and (b) the applicable make-whole amount, upon not less than 30 and no more than 60 days written notice to the holders of the Senior Notes. In the event of a change in control of the Company, as defined in the Note Purchase Agreement, the Company may be required to prepay the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest.

Edgar Filing: BRUKER CORP - Form 10-Q

The Note Purchase Agreement contains affirmative covenants, including, without limitation, maintenance of corporate existence, compliance with laws, maintenance of insurance and properties, payment of taxes, addition of subsidiary guarantors and furnishing notices and other information. The Note Purchase Agreement also contains certain restrictive covenants that restrict the Company's ability to, among other things, incur liens, transfer or sell assets, engage in certain mergers and consolidations and enter into transactions with affiliates. The Note Purchase Agreement also includes customary representations and warranties and events of default. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding Senior Notes will become due and payable immediately without further action or notice. In the case of payment events of defaults, any holder of Senior Notes affected thereby may declare all Senior Notes held by it due and payable immediately. In the case of any other event of default, a majority of the holders of the Senior Notes may declare all the Senior Notes to be due and payable immediately. Pursuant to the Note Purchase Agreement, so long as any Senior Notes are outstanding the Company will not permit (i) its leverage ratio, as determined pursuant to the Note Purchase Agreement, as of the end of any fiscal quarter to exceed 3.50 to 1.00, (ii) its interest coverage ratio as determined pursuant to the Note Purchase Agreement as of the end of any fiscal quarter for any period of four consecutive fiscal quarters to be less than 2.50 to 1 or (iii) priority debt at any time to exceed 25% of consolidated net worth, as determined pursuant to the Note Purchase Agreement.

As of March 31, 2015, the Company was in compliance with the covenants of the Note Purchase Agreement.

Table of Contents**8. Derivative Instruments and Hedging Activities*****Interest Rate Risks***

The Company's exposure to interest rate risk relates primarily to outstanding variable rate debt and adverse movements in the related short-term market rates. The most significant component of the Company's interest rate risk relates to amounts outstanding under the Amended Credit Agreement, which totaled \$112.5 million at March 31, 2015. The Company currently has a higher level of fixed rate debt than variable rate debt, which limits the exposure to adverse movements in interest rates.

Foreign Exchange Rate Risk Management

The Company generates a substantial portion of its revenues and expenses in international markets, principally Germany and other countries in the European Union, Switzerland and Japan, which subjects its operations to the exposure of exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. The Company periodically enters into foreign currency contracts in order to minimize the volatility that fluctuations in exchange rates have on its monetary transactions. Under these arrangements, the Company typically agrees to purchase a fixed amount of a foreign currency in exchange for a fixed amount of U.S. Dollars or other currencies on specified dates with maturities of less than twelve months. These transactions do not qualify for hedge accounting and, accordingly, the instrument is recorded at fair value with the corresponding gains and losses recorded in the condensed consolidated statements of income and comprehensive income (loss). The Company had the following notional amounts outstanding under foreign currency contracts at March 31, 2015 and December 31, 2014 (in millions):

Buy	Notional Amount in Buy Currency	Sell	Maturity	Notional Amount in U.S. Dollars	Fair Value of Assets	Fair Value of Liabilities
March 31, 2015:						
Euro	48.5	U.S. Dollars	April 2015 to September 2015	\$ 56.3	\$	\$ 4.3
U.S. Dollars	0.2	Euro	July 2015 to December 2015	0.2		
Euro	0.1	British Pounds	May 2015 to June 2015	0.1		
Swiss Francs	40.5	U.S. Dollars	April 2015	45.2		3.5
				\$ 101.8	\$	\$ 7.8
December 31, 2014:						
Euro	43.3	U.S. Dollars	January 2015 to September 2015	\$ 55.4	\$	\$ 2.9
U.S. Dollars	0.3	Euro	February 2015 to December 2015	0.3		

Edgar Filing: BRUKER CORP - Form 10-Q

Euro	0.1	British Pounds	January 2015 to June 2015	0.1		
Yen	5.7	Euro	March 2015	0.1		
Swiss Francs	41.4	U.S. Dollars	January 2015	43.9	2.2	
				\$ 99.8	\$ 5.1	

In addition, the Company periodically enters into purchase and sales contracts denominated in currencies other than the functional currency of the parties to the transaction. The Company accounts for these transactions by separately valuing the embedded derivative component of these contracts. Contracts denominated in currencies other than the functional currency of the transacting parties amounted to \$54.6 million for the delivery of products and \$8.5 million for the purchase of products at March 31, 2015 and \$41.1 million for the delivery of products and \$8.7 million for the purchase of products at December 31, 2014. The changes in the fair value of these embedded derivatives are recorded as foreign currency exchange gains/losses in Interest and Other Income (Expense), net in the condensed consolidated statements of income and comprehensive income (loss).

Table of Contents**Commodity Price Risk Management**

The Company has an arrangement with a customer under which it has a firm commitment to deliver copper based superconductors at a fixed price. In order to minimize the volatility that fluctuations in the price of copper have on the Company's sales of these superconductors, the Company enters into commodity hedge contracts. At March 31, 2015 and December 31, 2014, the Company had fixed price commodity contracts with notional amounts aggregating \$1.9 million and \$2.7 million, respectively. The changes in the fair value of these commodity contracts are recorded in Interest and Other Income (Expense), net in the condensed consolidated statements of income and comprehensive income (loss).

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

	Balance Sheet Location	March 31, 2015	December 31, 2014
Derivative assets:			
Embedded derivatives in purchase and delivery contracts	Other current assets	\$ 1.7	\$ 0.6
Derivative liabilities:			
Foreign exchange contracts	Other current liabilities	\$ 7.8	\$ 5.1
Embedded derivatives in purchase and delivery contracts	Other current liabilities	1.2	0.4
Fixed price commodity contracts	Other current liabilities	0.2	0.2

The impact on net income of unrealized gains and losses resulting from changes in the fair value of derivative instruments not designated as hedging instruments are as follows (in millions):

	Three Months Ended March 31,	
	2015	2014
Foreign exchange contracts	\$ (2.7)	\$ (0.6)
Embedded derivatives in purchase and delivery contracts	0.3	
Fixed price commodity contracts		(0.2)
Income (expense), net	\$ (2.4)	\$ (0.8)

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

9. Provision for Income Taxes

The Company accounts for income taxes using the asset and liability approach by recognizing deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. The Company records a valuation allowance

Edgar Filing: BRUKER CORP - Form 10-Q

to reduce deferred tax assets to the amount that is more likely than not to be realized. In addition, the Company accounts for uncertain tax positions that have reached a minimum recognition threshold.

The income tax provision for the three months ended March 31, 2015 and 2014 was \$4.8 million and \$5.7 million, respectively, representing effective tax rates of 41.0% and 36.3%, respectively. The Company's effective tax rate may change over time as the amount or mix of income and taxes changes amongst the jurisdictions in which the Company is subject to tax.

As of March 31, 2015 and December 31, 2014, the Company has unrecognized tax benefits, excluding penalties and interest, of approximately \$30.7 million and \$27.0 million, respectively, of which \$16.4 million and \$12.8 million, if recognized, would result in a reduction of the Company's effective tax rate. The Company recognizes penalties and interest

Table of Contents

related to unrecognized tax benefits in the provision for income taxes. As of March 31, 2015 and December 31, 2014, approximately \$4.3 million and \$3.6 million, respectively, of accrued interest and penalties related to uncertain tax positions was included in other long-term liabilities on the unaudited condensed consolidated balance sheets. Penalties and interest related to unrecognized tax benefits of \$0.8 million were recorded in the provision for income taxes during the three months ended March 31, 2015. No penalties and interest related to unrecognized tax benefits were recorded in the provision for income taxes during the three months ended March 31, 2014.

The Company files tax returns in the United States, which include federal, state and local jurisdictions, and many foreign jurisdictions with varying statutes of limitations. The Company considers Germany, the United States and Switzerland to be its significant tax jurisdictions. The tax years 2009 to 2014 are open tax years in these significant jurisdictions. During the three months ended March 31, 2014, the Company settled a tax audit in the United States for the tax year 2010. The amount of the settlement was immaterial to the condensed consolidated financial statements. Tax years 2011 to 2014 remain open for examination in the United States.

10. Commitments and Contingencies

Legal

Lawsuits, claims and proceedings of a nature considered normal to its businesses may be pending from time to time against the Company. The Company believes the outcome of these proceedings, individually and in the aggregate, will not have a material impact on the Company's financial position or results of operations. As of March 31, 2015 and December 31, 2014, accruals recorded for such potential contingencies were immaterial to the condensed consolidated financial statements.

Letters of Credit and Guarantees

At March 31, 2015 and December 31, 2014, the Company had bank guarantees of \$136.8 million and \$150.3 million, respectively, for customer advances. These arrangements guarantee the refund of advance payments received from customers in the event that the merchandise is not delivered or warranty obligations are not fulfilled in compliance with the terms of the contract. These guarantees affect the availability of the Company's lines of credit.

11. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in other comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity, net of tax. The Company's other comprehensive income (loss) is composed primarily of foreign currency translation adjustments and changes in the funded status of defined benefit pension plans. The following is a summary of comprehensive income (loss) (in millions):

Edgar Filing: BRUKER CORP - Form 10-Q

	Three Months Ended March 31,	
	2015	2014
Consolidated net income	\$ 6.9	\$ 10.0
Foreign currency translation adjustments	(72.9)	2.9
Pension liability adjustments	8.3	(0.1)
Other		0.3
Net comprehensive income (loss)	(57.7)	13.1
Less: Comprehensive income attributable to noncontrolling interests	0.4	1.6
Comprehensive income (loss) attributable to Bruker Corporation	\$ (58.1)	\$ 11.5

The following is a summary of the components of accumulated other comprehensive income (loss), net of tax, at March 31, 2015 (in millions):

Table of Contents

	Foreign Currency Translation	Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance at December 31, 2014	\$ 66.0	\$ (37.8)	\$ 28.2
Other comprehensive loss before reclassifications	(72.5)	(0.2)	(72.7)
Realized loss on reclassification, net of tax of \$2.1 million		8.5	8.5
Net current period other comprehensive income (loss)	(72.5)	8.3	(64.2)
Balance at March 31, 2015	\$ (6.5)	\$ (29.5)	\$ (36.0)

12. Noncontrolling Interests

Noncontrolling interests represent the minority shareholders' proportionate share of the Company's majority owned subsidiaries. The following table sets forth the changes in noncontrolling interests (in millions):

	Three Months Ended March 31,	
	2015	2014
Balance at beginning of period	\$ 5.8	\$ 4.1
Net income	0.4	1.3
Foreign currency translation adjustments	(0.4)	
Other		0.3
Balance at end of period	\$ 5.8	\$ 5.7

13. Other Charges, Net

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

	Three Months Ended March 31,	
	2015	2014
Information technology transformation costs	\$ 1.7	\$ 0.6
Restructuring charges	1.3	0.2
Pension settlement charge	10.2	
Professional fees incurred in connection with internal investigation		2.2
Acquisition-related charges		0.6
Other charges, net	\$ 13.2	\$ 3.6

Over the past couple of years, the Company has been undertaking productivity improvement initiatives in an effort to better optimize its operations. These restructuring initiatives have included the divestiture of certain non-core businesses, outsourcing of various manufacturing activities, transferring or ceasing operations at certain facilities and an overall right-sizing within the Company based on the current business environment.

Edgar Filing: BRUKER CORP - Form 10-Q

The Company recorded total restructuring charges during the three months ended March 31, 2015 of \$3.3 million related to these initiatives, all within BSI. For the three months ended March 31, 2015, the charges consisted of \$0.4 million of inventory provisions for excess inventory, \$1.4 million of severance costs and \$1.5 million of exit related costs, such as professional service and facility exit charges. During the three months ended March 31, 2015, the Company has recorded restructuring charges of \$2.0 as a component of Cost of Revenue and \$1.3 million as a component of Other Charges, net in the accompanying condensed consolidated statement of income and comprehensive income (loss).

Included in the total restructuring charges are expenses specifically related to a plan approved by the Company's Board of Directors in the third quarter of 2014 (the Plan) to divest certain assets and implement a restructuring program in the former Chemical and Applied Markets (CAM) division within the Bruker CALID Group. Restructuring expenses recorded during the

Table of Contents

three months ended March 31, 2015 related to the Plan consisted of \$0.8 million of severance and exit costs and \$0.5 million of inventory write-downs, of which \$0.7 million was recorded as component of Cost of Revenue and \$0.6 million as a component of Other Charges, net in the accompanying condensed consolidated statement of income and comprehensive income (loss). From inception of the Plan in the third quarter of 2014, cumulative restructuring expenses recorded have been \$18.8 million, consisting of \$10.3 million of inventory write-downs and \$8.5 million of severance and exit costs. As of March 31, 2015, expenses incurred under the Plan are substantially complete.

The following table sets forth the changes in restructuring reserves for the three months ended March 31, 2015 (in millions):

	Total	Severance	Exit Costs	Provisions for Excess Inventory
Balance at December 31, 2014	\$ 16.1	\$ 7.1	\$ 1.3	\$ 7.7
Restructuring charges	3.3	1.3	1.5	0.5
Cash payments	(5.0)	(3.5)	(1.5)	
Foreign currency effect	(1.5)	(0.6)		(0.9)
Balance at March 31, 2015	\$ 12.9	\$ 4.3	\$ 1.3	\$ 7.3

During the three months ended March 31, 2015, the Company outsourced its pension plan in Switzerland to an outside insurance provider and made certain plan design changes. In conjunction with the outsourcing of the plan, the Company recorded a one-time, non-cash settlement charge of \$10.2 million as the plan assets and pension obligations for the retirees and other certain members of the population were transferred to the outside insurance provider. The settlement charge was recorded as a component of Other Charges, net in the accompanying condensed consolidated statement of income and comprehensive income (loss).

14. Interest and Other Income (Expense), Net

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

	Three Months Ended March 31,	
	2015	2014
Interest expense, net	\$ (3.1)	\$ (3.0)
Exchange losses on foreign currency transactions	(0.4)	(1.6)
Gain on disposal of product line		0.3
Other		(0.6)
Interest and other income (expense), net	\$ (3.5)	\$ (4.9)

15. Business Segment Information

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

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

Table of Contents

	Three Months Ended March 31,	
	2015	2014
Revenue:		
BSI	\$ 327.5	\$ 393.9
BEST	27.5	34.8
Eliminations (a)	(1.5)	(5.0)
Total revenue	\$ 353.5	\$ 423.7
Operating Income		
BSI	\$ 13.7	\$ 16.6
BEST	1.0	2.8
Corporate, eliminations and other (b)	0.5	1.2
Total operating income	\$ 15.2	\$ 20.6

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

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

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

	March 31, 2015	December 31, 2014
Assets:		
BSI	\$ 1,744.2	\$ 1,827.7
BEST	88.5	101.2
Eliminations and other (a)	(60.0)	(64.1)
Total assets	\$ 1,772.7	\$ 1,864.8

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

16. Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The new guidance changes the presentation of debt issuance costs in the balance sheet to a reduction of the related debt liability instead of classifying as an asset. The income statement presentation of debt issuance costs is unchanged. ASU No. 2015-03 is effective for annual periods after December 15, 2015, and interim periods within those years. Early application is permitted and the guidance is to be applied retrospectively to all prior periods presented. The Company does not expect adoption would have a material impact on its consolidated balance sheet.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under Accounting Standards Codification (ASC) Topic 605. The new guidance was the result of a joint project between the FASB

Edgar Filing: BRUKER CORP - Form 10-Q

and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop common revenue standards for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. In April 2015, the FASB proposed to defer the effective date of ASU 2014-09 by one year to annual periods beginning after December 15, 2017, with early application permitted as of the previous effective date. The Company is currently assessing the impact adoption of the new guidance may have on its consolidated financial statements.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our interim unaudited condensed consolidated financial statements and the notes to those statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, and in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, which express that we believe, anticipate, plan, expect, seek, estimate, or should, as well as other statements which are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual events or results may differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference are discussed in Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014.

Although our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), we believe describing income and expenses, excluding the effect of foreign exchange and our recent acquisitions and divestitures, as well as certain other charges, net, provides meaningful supplemental information regarding our performance. We believe that this supplemental information is useful in assessing our operating performance and trends as the excluded items are not indicative of our core business operating results. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, the comparable GAAP financial measures and are intended to supplement our financial results that are prepared in accordance with GAAP. We also use these non-GAAP financial measures for financial and operational decision making, including as part of our compensation to employees, and as a means to help evaluate period-to-period comparisons.

OVERVIEW

We are organized into four operating segments: the Bruker BioSpin Group, the Bruker CALID Group, the Bruker Nano Group, and the Bruker Energy & Supercon Technologies (BEST) division.

The Bruker BioSpin Group combines the Bruker Magnetic Resonance and Preclinical Imaging divisions and designs, manufactures and distributes enabling life science tools based on magnetic resonance technology.

The Bruker CALID Group combines the Bruker Daltonics, Bruker Detection and Bruker Optics divisions and designs, manufactures, and distributes mass spectrometry and chromatography instruments and solutions for life sciences, including proteomics, metabolomics and clinical research applications. Our mass spectrometry and chromatography instruments also provide solutions for applied markets that include food safety, environmental analysis and petrochemical analysis. Bruker CALID also designs, manufactures and distributes various analytical instruments for CBRNE detection and research, as well as analytical, research and process analysis instruments and solutions based on infrared and Raman molecular spectroscopy technologies.

Edgar Filing: BRUKER CORP - Form 10-Q

The Bruker Nano Group combines the Bruker AXS, Bruker Nano Surfaces and Bruker Nano Analytical divisions and designs, manufactures and distributes advanced X-ray, spark-optical emission spectroscopy, atomic force microscopy and stylus and optical metrology instrumentation used in non-destructive molecular, materials and elemental analysis. During the first quarter of 2015, separate portions of the former Bruker Elemental division were added to the Bruker AXS and Bruker Nano Analytical divisions.

The BEST division designs, manufactures and distributes low temperature superconductor and high temperature superconductor materials for use in advanced magnet technology and energy applications as well as linear accelerators, accelerator cavities, insertion devices, other accelerator components and specialty superconducting magnets for physics and energy research and a variety of other scientific applications.

For financial reporting purposes, we aggregate the Bruker BioSpin, Bruker CALID and Bruker Nano operating segments into the Bruker Scientific Instruments (BSI) reporting segment, which represented approximately 93% of the Company's revenues during the three months ended March 31, 2015. This aggregation reflects these operating segments' similar economic

Table of Contents

characteristics, production processes, customer services provided, types and classes of customers, methods of distribution and regulatory environments. Our BEST division is our other reporting segment and represents the remainder of our revenues.

For the three months ended March 31, 2015, our revenue decreased by \$70.2 million, or 16.6%, to \$353.5 million, compared to \$423.7 million for the comparable period in 2014. The impact of changes in foreign exchange rates and recent divestitures in our former Chemical and Applied Markets (CAM) division, net of the effect of a recent acquisition, contributed \$57.7 million, or 13.6% of the decline. In addition, revenue from NMR products declined due to lower order levels in the prior year and delays in installation on certain orders.

Our gross profit margin increased to 45.3% from 42.4% during the three months ended March 31, 2015 and 2014, respectively. The increase in gross margin percentage was driven by the mix of products sold, including new product sales and certain orders recognized during the first quarter of 2015 that had higher gross margin levels, and the favorable impact of recent operational improvement initiatives, including product pricing, outsourcing of various manufacturing activities and recent divestiture and restructuring actions, including within the former CAM division. Selling, general and administrative expenses and research and development costs combined during the three months ended March 31, 2015 decreased by approximately \$23.7 million compared to the prior year, resulting primarily from the favorable impact of changes in foreign exchange rates and recent divestiture and restructuring actions. As previously disclosed, we plan to take additional restructuring measures as a result of the revenue decline that occurred during the second half of 2014 and continued during the first quarter of 2015. This includes restructuring actions commencing during 2015 that are expected to reduce employee headcount by approximately 9% within our Bruker BioSpin Group once completed.

During the three months ended March 31, 2015, we outsourced our pension plan in Switzerland to an outside insurance provider, made certain plan design changes and remeasured the liability. As a result, non-cash pension expenses in 2015 will increase by approximately \$16 million, which includes a one-time, non-cash settlement charge of \$10.2 million recorded in the first quarter of 2015 as the plan assets and pension obligations for the retirees and other certain members of the population were transferred to the outside insurance provider. The settlement charge was recorded as a component of Other Charges, net in our condensed consolidated statement of income and comprehensive income (loss).

In addition to the above, we can also experience quarter-to-quarter fluctuations in our operating results as a result of factors outside our control, such as:

- sales of infrequent, but high value system solutions, such as the Bruker BioSpin Group's ultra-high field magnets, the Bruker CALID Group's fourier transform mass spectrometry systems and the Bruker Nano Group's atomic force microscopy systems;
- the timing of governmental stimulus programs and academic research budgets;
- the time it takes for customers to construct or prepare their facilities for our products; and
- the time required to obtain governmental licenses.

These factors have in the past affected the timing of recognizing revenue associated with our products and will continue to do so in the future. Accordingly, our operating results in any particular quarter may not necessarily be an indication of any future quarter's operating performance.

CRITICAL ACCOUNTING POLICIES

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience, current market and economic conditions, industry trends, and other assumptions that we believe are reasonable and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the following critical accounting policies to be both those most important to the portrayal of our financial position and results of operations and those that require the most subjective judgment:

- Revenue recognition;

Table of Contents

- Accounting for income taxes;
- Valuation of inventory; and
- Goodwill, other intangible assets and other long-lived assets.

For a further discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2014. There were no significant changes to our critical accounting policies for the three months ended March 31, 2015.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2015 compared to the Three Months Ended March 31, 2014

Consolidated Results

The following table presents our results for the three months ended March 31, 2015 and 2014 (dollars in millions, except per share data):

	Three Months Ended March 31,	
	2015	2014
Product revenue	\$ 298.0	\$ 366.1
Service revenue	54.1	57.0
Other revenue	1.4	0.6
Total revenue	353.5	423.7
Cost of product revenue	161.2	207.1
Cost of service revenue	31.9	36.9
Cost of other revenue	0.2	
Total cost of revenue	193.3	244.0
Gross profit	160.2	179.7
Operating expenses:		
Selling, general and administrative	94.6	109.5
Research and development	37.2	46.0
Other charges	13.2	3.6
Total operating expenses	145.0	159.1
Operating income	15.2	20.6
Interest and other income (expense), net	(3.5)	(4.9)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	11.7	15.7
Income tax provision	4.8	5.7
Consolidated net income	6.9	10.0

Edgar Filing: BRUKER CORP - Form 10-Q

Net income attributable to noncontrolling interest in consolidated subsidiaries		0.4		1.3
Net income attributable to Bruker Corporation	\$	6.5	\$	8.7
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	\$	0.04	\$	0.05
Weighted average common shares outstanding:				
Basic		168.3		167.3
Diluted		169.7		169.4

Table of Contents

Revenue

For the three months ended March 31, 2015, our revenue decreased by \$70.2 million, or 16.6%, to \$353.5 million, compared to \$423.7 million for the comparable period in 2014. Included in revenue was a decrease of approximately \$46.8 million from the impact of foreign exchange due to the strengthening of the U.S. Dollar primarily versus the Euro, as well as versus the Japanese Yen, Russian Ruble and other currencies, and a decrease of approximately \$10.9 million attributable to recent divestitures within the former CAM division, net of a recent acquisition. Excluding the effects of foreign exchange and our recent acquisition and divestitures, revenue decreased by \$12.5 million, or 3.0%.

BSI segment revenue decreased by \$66.4 million, or 16.9%, to \$327.5 million for the three months ended March 31, 2015, compared to \$393.9 million for the three months ended March 31, 2014. BEST segment revenue decreased by \$7.3 million, or 21.0%, to \$27.5 million for the three months ended March 31, 2015, compared to \$34.8 million for the three months ended March 31, 2014.

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

Gross Profit

Gross profit for the three months ended March 31, 2015 was \$160.2 million, or 45.3% of revenue, compared to \$179.7 million, or 42.4% of revenue, for the three months ended March 31, 2014. Included in gross profit were various charges for amortization of acquisition-related intangible assets and other acquisition-related costs and restructuring costs totaling \$6.9 million and \$7.5 million for the three months ended March 31, 2015 and 2014, respectively. Excluding these charges, our gross profit margin for the three months ended March 31, 2015 and 2014 was 47.3% and 44.2%, respectively. The higher gross profit margin is primarily attributable to the mix of products sold, including new product sales and certain orders recognized during the first quarter of 2015 that had higher gross margin levels, and the favorable impact of recent operational improvement initiatives, including product pricing, outsourcing of various manufacturing activities and recent divestiture and restructuring actions, including within the former CAM division.

Selling, General and Administrative

Our selling, general and administrative expenses for the three months ended March 31, 2015 decreased to \$94.6 million, or 26.8% of total revenue, from \$109.5 million, or 25.8% of total revenue, for the comparable period in 2014. The decrease in selling, general and administrative expenses in dollars was primarily attributable to the favorable impact of changes in foreign exchange rates and recent divestiture and restructuring actions, including within the former CAM division. The increase as a percentage of revenue was driven by lower revenue levels as there are certain inherent costs that are not variable based on revenue.

Research and Development

Edgar Filing: BRUKER CORP - Form 10-Q

Our research and development expenses for the three months ended March 31, 2015 decreased to \$37.2 million, or 10.5% of total revenue, from \$46.0 million, or 10.9% of total revenue, for the comparable period in 2014. The decrease in research and development expenses was primarily attributable to the favorable impact of changes in foreign exchange rates and lower material costs.

Other Charges, Net

Other charges, net of \$13.2 million recorded for the three months ended March 31, 2015 related entirely to the BSI segment. The charges consisted of a \$10.2 million one-time, non-cash settlement charge as the plan assets and pension obligations for the retirees and other certain members of the population within our pension plan in Switzerland were transferred to an outside insurance provider, \$1.3 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives, and \$1.7 million of costs associated with our global information technology (IT) transformation initiative. The IT transformation initiative is a multi-year project aimed at updating and integrating our global ERP and HR information systems.

Other charges, net recorded of \$3.6 million for the three months ended March 31, 2014 related entirely to the BSI segment. The charges consisted of \$2.2 million of legal and other professional service fees associated with our internal investigation and review of our operations in China which was completed in 2014, \$0.6 million of acquisition-related costs, \$0.2 million of restructuring costs related to closing facilities and implementing outsourcing and other restructuring initiatives and \$0.6 million of costs associated with our global IT transformation initiative.

Table of Contents

Operating Income

Operating income for the three months ended March 31, 2015 was \$15.2 million, resulting in an operating margin of 4.3%, compared to operating income of \$20.6 million, resulting in an operating margin of 4.9%, for the three months ended March 31, 2014. The decrease in operating income is driven by the increase in Other Charges, net, and higher operating expenses as a percentage of revenue, partially offset by improvements in gross profit during the three months ended March 31, 2015 discussed above.

Interest and Other Income (Expense), Net

Interest and other income (expense), net during the three months ended March 31, 2015 was expense of \$(3.5) million, as compared to an expense of \$(4.9) million for the comparable period of 2014.

During the three months ended March 31, 2015, the components within interest and other income (expense), net were net interest expense of \$3.1 million and realized and unrealized losses on foreign currency denominated transactions of \$0.4 million. During the three months ended March 31, 2014, the major components within interest and other income (expense), net were net interest expense of \$3.0 million and realized and unrealized losses on foreign currency denominated transactions of \$1.6 million. The realized and unrealized losses on foreign currency denominated transactions during the three months ended March 31, 2014 was primarily due to the strengthening of a number of currencies against the Euro, including the Swiss Franc and U.S. Dollar.

Income Tax Provision

The 2015 and 2014 effective tax rates were calculated using our projected annual pre-tax income or loss. The effects of tax credits, the expected level of other tax benefits and the impact of changes to the valuation allowance, as well as changes in the mix of our pre-tax income and losses among jurisdictions with varying statutory tax rates and credits, were also considered in the calculation.

The income tax provision for the three months ended March 31, 2015 was \$4.8 million compared to \$5.7 million for the three months ended March 31, 2014, representing effective tax rates of 41.0% and 36.3%, respectively. The increase in our effective tax rate was primarily due to changes in the expected mix of earnings among tax jurisdictions and an increase in tax reserves.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three months ended March 31, 2015 and 2014 was \$0.4 million and \$1.3 million, respectively. The net income attributable to noncontrolling interests represented the minority shareholders' proportionate share of the net income recorded by our majority-owned indirect subsidiaries.

Net Income Attributable to Bruker Corporation

Our net income for the three months ended March 31, 2015 was \$6.5 million, or \$0.04 per diluted share, compared to \$8.7 million, or \$0.05 per diluted share, for the comparable period in 2014. The decrease was driven by lower revenue levels, partially offset by higher gross margin levels and lower operating expenses.

Segment Results

Revenue

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

Table of Contents

	Three Months Ended March 31,				Dollar Change	Percentage Change
	2015	2014				
BSI	\$ 327.5	\$ 393.9	\$		(66.4)	(16.9)%
BEST	27.5	34.8			(7.3)	(21.0)%
Eliminations (a)	(1.5)	(5.0)			3.5	
	\$ 353.5	\$ 423.7	\$		(70.2)	(16.6)%

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

BSI Segment Revenues

BSI segment revenue decreased by \$66.4 million, or 16.9%, to \$327.5 million for the three months ended March 31, 2015, compared to \$393.9 million for the three months ended March 31, 2014. Included in revenue was a decrease of approximately \$41.2 million from the impact of foreign exchange due to the strengthening of the U.S. Dollar primarily versus the Euro, as well as versus the Japanese Yen, Russian Ruble and other currencies, and a decrease of approximately \$10.9 million attributable to recent divestitures within the former CAM division, net of a recent acquisition. Excluding the effects of foreign exchange and our recent acquisition and divestitures, revenue decreased by \$14.3 million, or 3.6%.

The Bruker BioSpin Group experienced a decrease in revenue, driven by lower sales of NMR products within the Magnetic Resonance division due to the impact of reduced order levels in the prior year and delays in installation of certain orders. In addition, the impact of changes in foreign exchange rates had an unfavorable effect on revenue during the three months ended March 31, 2015.

The Bruker CALID Group had a decrease in revenue driven by the unfavorable impact of changes in foreign exchange rates during the three months ended March 31, 2015. There was a also decline in the Bruker Daltonics division due to the impact of the divestitures in the former CAM division during the third and fourth quarters of 2014, partially offset by higher revenue levels for mass spectrometry products. In addition, sales within the Bruker Detection division increased due to obtaining export licenses, which were previously delayed, that allowed for recognition of certain large orders during the first quarter of 2015.

The Bruker Nano Group also experienced a decrease in revenue, driven by the unfavorable impact of changes in foreign exchange rates during the three months ended March 31, 2015. This was partially offset by an increase in our AXS division from a higher volume of X-ray systems sold following strong order levels in the fourth quarter of 2014 and revenue generated from the recent acquisition related to its fluorescence microscopy products.

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

	Three Months Ended March 31,			
	2015	2014		
Revenue	Percentage of Segment	Revenue	Percentage of Segment	

Edgar Filing: BRUKER CORP - Form 10-Q

			Revenue			Revenue
System revenue	\$	240.8	73.5%	\$	308.2	78.2%
Aftermarket revenue		86.7	26.5%		85.7	21.8%
Total revenue	\$	327.5	100.0%	\$	393.9	100.0%

System revenue in the BSI segment includes nuclear magnetic resonance systems, magnetic resonance imaging systems, electron paramagnetic imaging systems, mass spectrometry systems, gas chromatography systems, CBRNE detection systems, X-ray systems, spark-optical emission spectroscopy systems, atomic force microscopy systems, stylus and optical metrology systems and molecular spectroscopy systems. Aftermarket revenues in the BSI segment include accessory sales, consumables, training and services.

Table of Contents***BEST Segment Revenues***

BEST segment revenue decreased \$7.3 million, or 21.0%, to \$27.5 million for the three months ended March 31, 2015, compared to \$34.8 million for the comparable period in 2014. The decrease in revenue was primarily due to the impact of foreign exchange due to the strengthening of the U.S. Dollar versus the Euro, which contributed \$5.9 million to the decline. In addition, there were lower sales of low temperature superconducting wire due to completion of certain projects in the prior year.

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

	2015		Three Months Ended March 31,		2014	
	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue	Revenue	Percentage of Segment Revenue
System and wire revenue	\$ 26.3	95.6%	\$ 33.6	96.6%	\$ 33.6	96.6%
Aftermarket revenue	1.2	4.4%	1.2	3.4%	1.2	3.4%
Total revenue	\$ 27.5	100.0%	\$ 34.8	100.0%	\$ 34.8	100.0%

System and wire revenue in the BEST segment includes low and high temperature superconducting wire and superconducting devices, including magnets, linear accelerators and radio frequency cavities. Aftermarket revenues in the BEST segment consist primarily of license revenue and sales of Cuponal, a bimetallic, non-superconducting material we sell to the power and transport industries.

Gross Profit and Operating Expenses

For the three months ended March 31, 2015, gross profit margin in the BSI segment increased to 47.2% from 43.4% for the comparable period in 2014. Higher gross profit margins resulted primarily from the mix of products sold, including new product sales and certain orders recognized during the first quarter of 2015 that had higher gross margin levels and the favorable impact of and the favorable impact of recent operational improvement initiatives, including product pricing, outsourcing of various manufacturing activities and recent divestiture and restructuring actions, including within the former CAM division. BEST segment gross margin decreased to 18.2% from 21.8% for the comparable period in 2014 due to completion of certain higher margin orders in the prior year, and the unfavorable impact of changes in foreign exchange rates.

In the three months ended March 31, 2015, selling, general and administrative expenses and research and development expenses in the BSI segment decreased to \$127.9 million, or 39.1% of segment revenue, from \$150.6 million, or 38.2% of segment revenue. The decrease in dollars reflects the favorable impact of changes in foreign exchange rates and recent divestiture and restructuring actions within the former CAM division. In addition, lower material costs contributed to the reduction in research and development expenses. The increase as a percentage of revenue was due to lower revenue levels during the three months ended March 31, 2015 as there are certain inherent costs that are not variable based on revenue. Selling, general and administrative expenses and research and development expenses in the BEST segment decreased to \$3.9 million, or 14.2% of segment revenue, from \$4.9 million, or 14.1% of segment revenue, for the comparable period in 2014. The decrease in dollars was primarily attributable to the favorable impact of changes in foreign exchange rates.

Operating Income

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

Table of Contents

	Three Months Ended March 31,			
	2015		2014	
	Operating Income	Percentage of Segment Revenue	Operating Income	Percentage of Segment Revenue
BSI	\$ 13.7	4.2%	\$ 16.6	4.2%
BEST	1.0	3.6%	2.8	8.0%
Corporate, eliminations and other (a)	0.5		1.2	
Total operating income	\$ 15.2	4.3%	\$ 20.6	4.9%

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

BSI operating income for the three months ended March 31, 2015 was \$13.7 million, resulting in an operating margin of 4.2%, compared to operating income of \$16.6 million, resulting in an operating margin of 4.2%, for the comparable period in 2014. Operating income included \$20.6 million and \$11.5 million for the three months ended 2015 and 2014, respectively, of various charges for amortization of acquisition-related intangible assets and other acquisition-related costs, restructuring costs, costs associated with a global IT transformation initiative, a non-cash charge associated with the settlement of a portion of our pension plan in Switzerland during the three months ended March 31, 2015, and legal and other professional service fees related to our internal investigation and review of our operations in China during the three months ended March 31, 2014. Excluding the charges noted above, operating margins were 10.5% and 7.1% for the three months ended March 31, 2015 and 2014, respectively. Operating income, excluding these costs, increased due to higher gross margin levels, partially offset by selling, general and administrative and research and development expenses being higher as a percentage of revenue as noted above.

BEST operating income for the three months ended March 31, 2015 was \$1.0 million, resulting in an operating margin 3.6%, compared to \$2.8 million, resulting in an operating margin of 8.0%, for the comparable period in 2014. The decrease in operating margin was a result of lower gross margin levels as noted above.

LIQUIDITY AND CAPITAL RESOURCES

We anticipate that our existing cash and credit facilities will be sufficient to support our operating and investing needs for at least the next twelve months. Our future cash requirements could be affected by acquisitions that we may make in the future. Historically, we have financed our growth through cash flow generation and a combination of debt financings and issuances of common stock. In the future, there are no assurances that additional financing alternatives will be available to us if required, or, if available, will be obtained on terms favorable to us.

During the three months ended March 31, 2015, net cash provided by operating activities was \$27.0 million, resulting from consolidated net income adjusted for non-cash items of \$31.2 million, partially offset by an increase in working capital of \$4.2 million. The increase in working capital for the three months ended March 31, 2015 is primarily due to an increase in inventory needed to fulfill shipments in the second quarter of 2015 and long lead time items, income tax payments made during the quarter and an increase in non-income tax receivables. These uses of cash were partially offset by a decrease in accounts receivable and an increase in customer advances. The decrease in accounts receivable was predominantly the result of lower first quarter revenue levels and improvements in collections and customer credit management practices. Customer advances increased because of the difference in the timing between receipt of customer acceptances and advance payments on new orders received. During the three months ended March 31, 2014, net cash provided by operating activities was \$18.5 million, resulting primarily from consolidated net income adjusted for non-cash items of \$35.8 million, partially offset by an increase in working capital of \$17.3 million. The increase in working capital for the three months ended March 31, 2014 was primarily due to an increase in inventory to support higher order

Edgar Filing: BRUKER CORP - Form 10-Q

levels, partially offset by an increase in accounts payable and accrued expenses based on timing of payments.

During the three months ended March 31, 2015, net cash used in investing activities was \$5.7 million, compared to net cash used in investing activities of \$7.9 million during the three months ended March 31, 2014. Cash used in investing activities during the three months ended March 31, 2015 was entirely attributable to capital expenditures, net. Cash used in investing activities during the three months ended March 31, 2014 was primarily attributable to \$8.6 million of capital expenditures, net.

During the three months ended March 31, 2015, net cash provided by financing activities was \$4.1 million, compared to

Table of Contents

net cash provided by financing activities of \$2.5 million during the three months ended March 31, 2014. Net cash provided by financing activities during the three months ended March 31, 2015 was primarily attributable to \$3.3 million of proceeds from the issuance of common stock in connection with stock option exercises and \$2.2 million of excess tax benefits related to our stock option awards, partially offset by contingent consideration payments related to recent acquisitions of \$2.1 million. Cash provided by financing activities during the three months ended March 31, 2014 was attributable to \$3.0 million of proceeds from the issuance of common stock in connection with stock option exercises, offset, in part, by an increase in restricted cash of \$0.3 million and repayment of debt of \$0.2 million.

At March 31, 2015 and December 31, 2014, we had \$448.5 million and \$460.7 million, respectively, of foreign cash, cash equivalents and short-term investments, most significantly in the Netherlands and Switzerland, compared to a total amount of cash, cash equivalents and short-term investments at March 31, 2015 and December 31, 2014 of \$492.3 million and \$497.5 million, respectively. If the cash, cash equivalents and short-term investments held by our foreign subsidiaries are needed to fund operations in the U.S., or we otherwise elect to repatriate the unremitted earnings of our foreign subsidiaries in the form of dividends or otherwise, or if the shares of the subsidiaries were sold or transferred, we would likely be subject to additional U.S. income taxes, net of the impact of any available tax credits, which could result in a higher effective tax rate in the future. Absent any unique circumstances that may materially impact our financial results, it is our intent to indefinitely reinvest unremitted earnings in our foreign subsidiaries.

At March 31, 2015, we had outstanding debt totaling \$354.6 million, consisting of \$240.0 million outstanding under the Note Purchase Agreement described below, \$112.5 million outstanding under the revolving loan component of the Amended Credit Agreement described below and \$2.1 million under capital lease obligations and other loans. At December 31, 2014, we had outstanding debt totaling \$355.0 million, consisting of \$240.0 million outstanding under the Note Purchase Agreement, \$112.5 million outstanding under the revolving loan component of the Amended Credit Agreement and \$2.5 million under capital lease obligations and other loans.

In May 2011, we entered into an amendment to, and restatement of, a credit agreement originally entered into in 2008, referred to as the Amended Credit Agreement. The Amended Credit Agreement provides for a revolving credit line with a maximum commitment of \$250.0 million with a maturity date of May 2016. Borrowings under the revolving credit line of the Amended Credit Agreement accrue interest, at our option at either (a) the greatest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) adjusted LIBOR plus 1.00% or (b) LIBOR, plus margins ranging from 0.80% to 1.65%. There is also a facility fee ranging from 0.20% to 0.35%.

Borrowings under the Amended Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the Amended Credit Agreement, and Bruker Energy & Supercon Technologies, Inc. The Amended Credit Agreement also requires that we maintain certain financial ratios related to maximum leverage and minimum interest coverage, as defined in the Amended Credit Agreement. Specifically, our leverage ratio cannot exceed 3.0 and our interest coverage ratio cannot be less than 3.0. In addition to the financial ratios, the Amended Credit Agreement restricts, among other things, our ability to do the following: make certain payments; incur additional debt; incur certain liens; make certain investments, including derivative agreements; merge, consolidate, sell or transfer all or substantially all of our assets; and enter into certain transactions with affiliates. Our failure to comply with any of these restrictions or covenants may result in an event of default under the applicable debt instrument, which could permit acceleration of the debt under that instrument and require us to prepay that debt before its scheduled due date.

Other revolving lines of credit are with various financial institutions located primarily in Germany and Switzerland. These revolving lines of credit are typically uncommitted, used for performance bonds or guarantees and due upon demand with interest payable monthly or quarterly.

Edgar Filing: BRUKER CORP - Form 10-Q

The following is a summary of the maximum commitments and net amounts available to the Company under revolving loan and line of credit arrangements as of March 31, 2015 (dollars in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Lines of Credit	Total Amount Available
Amended Credit Agreement	1.3%	\$ 250.0	\$ 112.5	\$ 6.6	\$ 130.9
Other revolving lines of credit		234.4		130.2	104.2
Total revolving lines of credit		\$ 484.4	\$ 112.5	\$ 136.8	\$ 235.1

Table of Contents

In January 2012, we entered into a note purchase agreement (the Note Purchase Agreement) with a group of accredited institutional investors. Pursuant to the Note Purchase Agreement, we issued and sold \$240.0 million of senior notes, referred to as the Senior Notes, which consist of the following:

- \$20.0 million 3.16% Series 2012A Senior Notes, Tranche A, due January 18, 2017;
- \$15.0 million 3.74% Series 2012A Senior Notes, Tranche B, due January 18, 2019;
- \$105.0 million 4.31% Series 2012A Senior Notes, Tranche C, due January 18, 2022; and
- \$100.0 million 4.46% Series 2012A Senior Notes, Tranche D, due January 18, 2024.

As of March 31 2015, we were in compliance with the covenants of the Amended Credit Agreement and the Note Purchase Agreement as our leverage ratio was 1.4 and our interest coverage ratio was 13.4.

As of March 31, 2015, we have approximately \$42.3 million of German Trade Tax net operating losses that are carried forward indefinitely and U.S. research and development tax credits of approximately \$12.3 million available to offset future tax liabilities that expire through 2034. These U.S. tax credit carryforwards are subject to limitations under provisions of the Internal Revenue Code.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The new guidance changes the presentation of debt issuance costs in the balance sheet to a reduction of the related debt liability instead of classifying as an asset. The income statement presentation of debt issuance costs is unchanged. ASU No. 2015-03 is effective for annual periods after December 15, 2015, and interim periods within those years. Early application is permitted and the guidance is applied retrospectively to all prior periods presented. We do not expect adoption would have a material impact on our consolidated balance sheet.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under Accounting Standards Codification (ASC) Topic 605. The new guidance was the result of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop common revenue standards for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective prospectively for annual periods beginning after December 15,

2016, and interim periods within those years. Early application is not permitted. In April 2015, the FASB proposed to defer the effective date of ASU 2014-09 by one year to annual periods beginning after December 15, 2017, with early application permitted as of the previous effective date. We are currently assessing the impact adoption of the new guidance may have on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are potentially exposed to market risks associated with changes in foreign exchange rates, interest rates and commodity prices. We selectively use financial instruments to reduce these risks. All transactions related to risk management techniques are authorized and executed pursuant to our policies and procedures. Analytical techniques used to manage and monitor foreign exchange and interest rate risk include market valuations and sensitivity analysis.

Impact of Foreign Currencies

We generate a substantial portion of our revenues in international markets, principally Germany and other countries in the European Union, Switzerland and Japan, which exposes our operations to the risk of exchange rate fluctuations. The impact of currency exchange rate movement can be positive or negative in any period. Our costs related to sales in foreign currencies are largely denominated in the same respective currencies, limiting our transaction risk exposure. However, for foreign currency

Table of Contents

denominated sales in certain regions, such as Japan, where we do not incur significant costs denominated in that foreign currency, we are more exposed to the impact of foreign currency fluctuations.

For sales not denominated in U.S. Dollars, if there is an increase in the rate at which a foreign currency is exchanged for U.S. Dollars, it will require more of the foreign currency to equal a specified amount of U.S. Dollars than before the rate increase. In such cases, if we price our products in the foreign currency, we will receive less in U.S. Dollars than we would have received before the rate increase went into effect. If we price our products in U.S. Dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. Dollar could result in our prices not being competitive in a market where business is transacted in the local currency. For example, if the U.S. Dollar further strengthened against the Japanese Yen, our Japanese-based competitors would have a pricing advantage over us.

Changes in foreign currency exchange rates decreased our revenue by approximately 11.0% for the three months ended March 31, 2015 and had minimal impact on our revenue for the three months ended March 31, 2014.

Assets and liabilities of our foreign subsidiaries, where the functional currency is the local currency, are translated into U.S. dollars using period-end exchange rates. Revenues and expenses of foreign subsidiaries are translated at the average exchange rates in effect during the year. Adjustments resulting from financial statement translations are included as a separate component of shareholders' equity. For the three months ended March 31, 2015 and 2014, we recorded net gains (losses) from currency translation adjustments of \$(72.9) million and \$2.9 million, respectively. Gains and losses resulting from foreign currency transactions are reported in interest and other income (expense), net in the condensed consolidated statements of income and comprehensive income (loss). Our foreign exchange losses, net were \$0.4 million and \$1.6 million for three months ended March 31, 2015 and 2014, respectively.

From time to time, we have entered into foreign currency contracts in order to minimize the volatility that fluctuations in exchange rates have on our cash flows related to purchases and sales denominated in foreign currencies. Under these arrangements, we agree to purchase a fixed amount of a foreign currency in exchange for a fixed amount of U.S. Dollars or other currencies on specified dates typically with maturities of less than twelve months. These transactions are recorded at fair value with the corresponding gains and losses recorded in interest and other income (expense), net in the condensed consolidated statements of income and comprehensive income (loss). At March 31, 2015 and December 31, 2014, we had foreign currency contracts with notional amounts aggregating \$101.8 million and \$99.8 million, respectively. We will continue to evaluate our currency risks and in the future may utilize foreign currency contracts more frequently as part of a transactional hedging program.

Impact of Interest Rates

We regularly invest excess cash in short-term investments that are subject to changes in interest rates. We believe that the market risk arising from holding these financial instruments is minimal because of our policy of investing in short-term financial instruments issued by highly rated financial institutions.

Our exposure related to adverse movements in interest rates is derived primarily from outstanding floating rate debt instruments that are indexed to short-term market rates. We currently have a higher level of fixed rate debt, which limits our exposure to adverse movements in interest rates.

Impact of Commodity Prices

We are exposed to certain commodity risks associated with prices for various raw materials. The prices of copper and certain other raw materials, particularly niobium tin, used to manufacture superconductors have increased significantly over the last decade. Copper and niobium tin are the main components of low temperature superconductors and continued commodity price increases for copper and niobium as well as other raw materials may negatively affect our profitability. Periodically, we enter into commodity forward purchase contracts to minimize the volatility that fluctuations in the price of copper have on our sales of these products. At March 31, 2015 and December 31, 2014, we had fixed price commodity contracts with notional amounts aggregating \$1.9 million and \$2.7 million, respectively. We will continue to evaluate our commodity risks and may utilize commodity forward purchase contracts more frequently in the future.

Inflation

We do not believe inflation had a material impact on our business or operating results during any of the periods presented.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures that are designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) by others within our organization. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2015. Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2015 that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please see Part I, Item 1, Financial Information- Note 10. Commitments and Contingencies- Legal which is incorporated by reference into this item. Additional information about our legal proceedings can be found in Part I, Item 3, Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

The following table sets forth all purchases made by or on behalf of the Company or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of our common stock during each month in the first quarter of 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2015		\$		
February 1 - February 28, 2015	5,271		18.95	
March 1 - March 31, 2015	5,271	\$	18.95	

All purchases were made by Frank H. Laukien, the Company's Chief Executive Officer and Chairman of the Board of Directors. Shares were purchased in open market transactions previously disclosed on a Form 4 filed with the U.S. Securities and Exchange Commission on February 26, 2015.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit

No.	Description
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(2)
101	The following materials from the Bruker Corporation Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income and Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) Notes to the Condensed Consolidated Financial Statements(2)

(1) Filed herewith.

(2) Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRUKER CORPORATION

Date: May 8, 2015

By: /s/ FRANK H. LAUKIEN, PH.D.
Frank H. Laukien, Ph.D.
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: May 8, 2015

By: /s/ CHARLES F. WAGNER, JR.
Charles F. Wagner, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)