BRUKER CORP
Form 10-Q
November 06, 2015

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 September 30, 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	**04-3110160**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40 Manning Road, Billerica, MA 01821

(Address of principal executive offices) (Zip Code)

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

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

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting companyo

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

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

Class	**Outstanding at November 2, 2015**
Common Stock, $0.01 par value per share	167,878,229 shares

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BRUKER CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2015

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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)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 331.0	$ 319.5
Short-term investments	201.3	178.0
Accounts receivable, net	242.3	293.2
Inventories	478.3	477.4
Other current assets	133.5	98.2
Total current assets	1,386.4	1,366.3
Property, plant and equipment, net	232.4	249.9
Intangibles, net and other long-term assets	224.1	248.6
Total assets	$ 1,842.9	$ 1,864.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 130.3	$ 0.8
Accounts payable	87.4	76.0
Customer advances	170.4	189.5
Other current liabilities	288.0	316.4
Total current liabilities	676.1	582.7
Long-term debt	241.1	354.2
Other long-term liabilities	157.7	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, 169,329,314 and 168,582,988 shares issued and 167,875,829 and 168,527,584 shares outstanding at September 30, 2015 and December 31, 2014, respectively	1.7	1.7
Treasury stock, at cost, 1,453,485 and 55,404 shares at September 30, 2015 and December 31, 2014, respectively	(25.9)	(0.9)
Accumulated other comprehensive income (loss)	(7.7)	28.2
Other shareholders equity	792.2	736.9
Total shareholders equity attributable to Bruker Corporation	760.3	765.9
Noncontrolling interest in consolidated subsidiaries	7.7	5.8
Total shareholders equity	768.0	771.7

Total liabilities and shareholders equity	$	1,842.9	$	1,864.8

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(in millions, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Product revenue	$ 334.6	$ 362.2	$ 968.8	$ 1,127.2
Service revenue	58.8	56.0	171.1	170.7
Other revenue	2.7	1.6	5.7	3.0
Total revenue	396.1	419.8	1,145.6	1,300.9
Cost of product revenue	193.1	214.6	545.8	638.9
Cost of service revenue	34.8	37.9	101.7	114.5
Cost of other revenue	0.7		1.0	
Total cost of revenue	228.6	252.5	648.5	753.4
Gross profit	167.5	167.3	497.1	547.5
Operating expenses:				
Selling, general and administrative	96.1	108.0	289.2	332.5
Research and development	34.3	42.1	109.0	132.6
Other charges, net	8.9	12.3	23.9	21.5
Total operating expenses	139.3	162.4	422.1	486.6
Operating income	28.2	4.9	75.0	60.9
Interest and other income (expense), net	(4.6)	4.1	(14.3)	(3.1)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	23.6	9.0	60.7	57.8
Income tax provision	10.7	2.7	17.8	24.7
Consolidated net income	12.9	6.3	42.9	33.1
Net income attributable to noncontrolling interest in consolidated subsidiaries	1.1	0.8	2.7	2.5
Net income attributable to Bruker Corporation	$ 11.8	$ 5.5	$ 40.2	$ 30.6
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	$ 0.07	$ 0.03	$ 0.24	$ 0.18
Weighted average common shares outstanding:				
Basic	167.8	168.0	168.2	167.5
Diluted	168.7	169.6	169.1	169.5
Comprehensive income (loss)	$ 5.0	$ (76.7)	$ 6.7	$ (50.3)
Less: Comprehensive income attributable to noncontrolling interests	1.2	0.8	2.4	2.5
Comprehensive income (loss) attributable to Bruker Corporation	$ 3.8	$ (77.5)	$ 4.3	$ (52.8)

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Consolidated net income	$ 42.9	$ 33.1
Adjustments to reconcile consolidated net income to cash flows from operating activities:		
Depreciation and amortization	40.0	47.6
Write-down of demonstration inventories to net realizable value	15.0	22.6
Stock-based compensation expense	5.8	7.1
Deferred income taxes	(1.1)	
Loss (gain) on disposal of product line	0.2	(9.0)
Other non-cash expenses, net	9.5	11.1
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	37.7	21.5
Inventories	(40.7)	(46.9)
Accounts payable and accrued expenses	4.8	24.7
Income taxes payable, net	(4.5)	(14.8)
Deferred revenue	(1.2)	2.2
Customer advances	(9.7)	(35.1)
Other changes in operating assets and liabilities, net	(19.1)	(19.1)
Net cash provided by operating activities	79.6	45.0
Cash flows from investing activities:		
Purchases of short-term investments	(78.0)	(120.8)
Maturities of short-term investments	41.3	
Cash paid for acquisitions, net of cash acquired		(3.9)
Proceeds from disposal of product line		12.8
Purchases of property, plant and equipment	(22.8)	(26.7)
Proceeds from sales of property, plant and equipment	0.7	2.9
Net cash used in investing activities	(58.8)	(135.7)
Cash flows from financing activities:		
Proceeds from revolving lines of credit	17.0	
Repayment of other debt, net	(0.4)	(0.7)
Proceeds from issuance of common stock, net	7.0	7.3
Payment of contingent consideration	(3.0)	
Repurchase of common stock	(24.9)	
Changes in restricted cash	1.4	0.7
Cash payments to noncontrolling interest	(0.5)	(1.1)
Excess tax benefits related to stock option awards	2.2	
Net cash (used in) provided by financing activities	(1.2)	6.2
Effect of exchange rate changes on cash and cash equivalents	(8.1)	(25.0)
Net change in cash and cash equivalents	11.5	(109.5)
Cash and cash equivalents at beginning of period	319.5	438.7
Cash and cash equivalents at end of period	$ 331.0	$ 329.2

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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

The Company has two reporting segments, *Bruker Scientific Instruments (BSI)*, which represents approximately 93% of the Company s revenues during the nine months ended September 30, 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 (μCT), 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.

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 September 30, 2015 and December 31, 2014, and for the three and nine months ended September 30, 2015 and 2014, have been prepared in accordance with accounting principles generally accepted in the United

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States of America (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial information presented herein does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of the results expected for any other interim period or the full year. 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 September 30, 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 September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
Stock options	$	2.0	$	1.7	$	5.3	$	4.7
Restricted stock		0.2		0.4		0.5		2.4
Total stock-based compensation	$	2.2	$	2.1	$	5.8	$	7.1

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% - 1.89%	1.81% - 2.10%
Expected life	6.0-6.25 years	6.0 - 6.25 years
Volatility	36.09% - 52.23%	53.24% - 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.

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

Stock option activity for the nine months ended September 30, 2015 was as follows:

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	Shares Subject to Options		Weighted Average Option Price	Weighted Average Remaining Contractual Term (Yrs)		Aggregate Intrinsic Value (in millions) (b)
Outstanding at December 31, 2014	4,810,588	$	15.24			
Granted	1,082,819		19.80			
Exercised	(616,052)		11.68			
Forfeited	(324,779)		19.16			
Outstanding at September 30, 2015	4,952,576	$	16.42	6.6	$	9.7
Exercisable at September 30, 2015	2,596,387	$	13.82	4.9	$	9.0
Exercisable and expected to vest at September 30, 2015 (a)	4,815,917	$	16.34	6.5	$	9.7

(a) In addition to the options that are vested at September 30, 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 September 30, 2015.

(b) The aggregate intrinsic value is based on the positive difference between the fair value of the Company s common stock price of $16.43 on September 30, 2015, or the date of exercises, as appropriate, and the exercise price of the underlying stock options.

The weighted average fair value of options granted was $7.82 and $10.82 per share for the nine months ended September 30, 2015 and 2014, respectively.

The total intrinsic value of options exercised was $5.1 million and $9.7 million for the nine months ended September 30, 2015 and 2014, respectively.

Restricted stock activity for the nine months ended September 30, 2015 was as follows:

	Shares Subject to Restriction		Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	309,725	$	17.20
Granted	130,274		19.72
Vested	(56,395)		17.02
Forfeited	(145,857)		17.42
Outstanding at September 30, 2015	237,747	$	18.49

The total fair value of restricted stock vested was $1.0 million and $3.0 million for the nine months ended September 30, 2015 and 2014, respectively.

At September 30, 2015, the Company expects to recognize pre-tax stock-based compensation expense of $18.7 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 Company expects to recognize additional pre-tax stock-based compensation expense of $4.1 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.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to Bruker Corporation, as reported	$ 11.8	$ 5.5	$ 40.2	$ 30.6
Weighted average shares outstanding:				
Weighted average shares outstanding-basic	167.8	168.0	168.2	167.5
Effect of dilutive securities:				
Stock options and restricted stock	0.9	1.6	0.9	2.0
	168.7	169.6	169.1	169.5
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	$ 0.07	$ 0.03	$ 0.24	$ 0.18

Stock options to purchase approximately 2.3 million shares for the three and nine months ended September 30, 2015, and 0.2 million shares for the three and nine months ended September 30, 2014, were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive.

During the second quarter of 2015, the Company s Board of Directors approved a share repurchase program under which the Company may repurchase the Company s common stock in amounts intended to approximately offset, on an annual basis, the dilutive effect of shares that are, or may be, issued pursuant to option or restricted stock awards under the 2010 Plan. It is currently expected that the Company s annual repurchase activity will target an amount not to exceed 1% of the total number of shares outstanding. During the three and nine months ended September 30, 2015, 395,000 and 1,245,000 shares, respectively, have been repurchased at an aggregate cost of $7.7 million and $24.9 million, respectively. The repurchased shares are reflected within Treasury stock in the accompanying condensed consolidated balance sheet at September 30, 2015.

4. Fair Value of Financial Instruments

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

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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 September 30, 2015 and December 31, 2014 (in millions):

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September 30, 2015	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$ 201.3	$ 201.3	$	$
Restricted cash	0.7	0.7		
Foreign exchange contracts	1.3		1.3	
Embedded derivatives in purchase and delivery contracts	0.4		0.4	
Long-term restricted cash	2.8	2.8		
Total assets recorded at fair value	$ 206.5	$ 204.8	$ 1.7	$
Liabilities:				
Contingent consideration	$ 5.2	$	$	$ 5.2
Foreign exchange contracts	0.6		0.6	
Embedded derivatives in purchase and delivery contracts	0.4		0.4	
Fixed price commodity contracts	0.4		0.4	
Total liabilities recorded at fair value	$ 6.6	$	$ 1.4	$ 5.2

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 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 $254.0 million and $257.2 million at September 30, 2015 and December 31, 2014, respectively, based on market and observable sources with similar maturity dates.

Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or

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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 or nine months ended September 30, 2015 or 2014.

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 $5.2 million as of September 30, 2015 and $11.9 million as of December 31, 2014. There were no changes to the fair value of the contingent considerations recognized in earnings for the three months ended September 30, 2015 or 2014. Changes to the fair value of the contingent consideration recognized in earnings for the nine months ended September 30, 2015 was ($3.0) million, and was recorded within Other Charges, net in the condensed consolidated statements of income and comprehensive income (loss). The adjustments include a reversal of certain contingent consideration, as it was determined that revenues in 2015 related to the applicable products would not meet the required thresholds for payment. The nine months ended September 30, 2014 included a change to the fair value of the contingent consideration of $0.1 million which was recorded to Other Charges, net in the condensed consolidated statements of income and comprehensive income (loss). The following table sets forth the changes in contingent consideration liabilities for the nine months ended September 30, 2015 (in millions):

Balance at December 31, 2014	$	11.9
Current period adjustments		(3.0)
Current period settlements		(3.6)
Foreign currency effect		(0.1)
Balance at September 30, 2015	$	5.2

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. As of September 30, 2015 there are no cash equivalents outstanding and $201.3 million of short-term investments.

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 (loss) within the accompanying condensed consolidated balance sheet. There were no unrealized gains (losses) recorded during the three or nine months ended September 30, 2015 and 2014. 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 or nine months ended September 30, 2015 and 2014.

5. Inventories

Inventories consisted of the following (in millions):

	September 30, 2015	December 31, 2014
Raw materials	$ 177.9	$ 159.5
Work-in-process	143.1	169.5
Finished goods	119.6	109.9
Demonstration units	37.7	38.5
Inventories	$ 478.3	$ 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 September 30, 2015 and December 31, 2014, inventory-in-transit was $55.8 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 $5.1 million and $7.4 million for the three months

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ended September 30, 2015 and 2014, respectively, and $15.0 million and $22.6 million for the nine months ended September 30, 2015 and 2014, respectively.

6. Goodwill and Other Intangible Assets

The following table sets forth the changes in the carrying amount of goodwill for the nine months ended September 30, 2015 (in millions):

Balance at December 31, 2014	$	127.8
Current period adjustments		0.5
Impairment		(0.7)
Foreign currency effect		(2.5)
Balance at September 30, 2015	$	125.1

In the third quarter of 2015, the Company commenced a restructuring initiative for the Molecular Imaging business of the BioSpin Preclinical Imaging division within the BSI segment. The initiative was developed as a result of management s conclusion that the business would be unable to achieve acceptable financial performance as a result of a reduction in new order bookings. The Company determined that this initiative was an indicator requiring the evaluation of the goodwill and definite-lived intangible assets within that reporting unit for recoverability. The Company recorded an impairment charge of $0.7 million related to goodwill and $1.8 million related to definite-lived intangible assets in the three and nine months ended September 30, 2015. This impairment charge is included as a component of Other Charges, net in the condensed consolidated statement of income and comprehensive income (loss).

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

	September 30, 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	$ 148.5	$ (90.5)	$ 58.0	$ 149.8	$ (81.7)	$ 68.1
Customer relationships	11.6	(5.3)	6.3	13.4	(5.6)	7.8
Non compete contracts	1.8	(0.5)	1.3	1.8	(0.2)	1.6
Trade names	0.2	(0.2)		0.2	(0.2)	
Intangible assets subject to amortization	162.1	(96.5)	65.6	165.2	(87.7)	77.5
In-process research and development	0.6		0.6	6.3		6.3
Intangible assets	$ 162.7	$ (96.5)	$ 66.2	$ 171.5	$ (87.7)	$ 83.8

For each of the three months ended September 30, 2015 and 2014, the Company recorded amortization expense of $5.1 million, related to intangible assets subject to amortization. For the nine months ended September 30, 2015 and 2014, the Company recorded amortization expense of $15.5 million and $15.1 million, respectively, related to intangible assets subject to amortization.

7. Debt

The Company s debt obligations as of September 30, 2015 and December 31, 2014 consisted of the following (in millions):

	September 30, 2015	December 31, 2014
US Dollar revolving loan under the Amended Credit Agreement	$ 129.5	$ 112.5
US Dollar notes under the Note Purchase Agreement	240.0	240.0
Capital lease obligations and other loans	1.9	2.5
Total debt	371.4	355.0
Current portion of long-term debt	(130.3)	(0.8)
Total long-term debt, less current portion	$ 241.1	$ 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 provided a maximum commitment on the Company s revolving credit line of $250.0 million and a maturity date of May 2016. The Amended Credit Agreement was repaid in full in October

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2015. Borrowings under the revolving credit line of the Amended Credit Agreement accrued 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 was also a facility fee ranging from 0.20% to 0.35%.

Borrowings under the Amended Credit Agreement were 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 required the Company to maintain certain financial ratios related to maximum leverage and minimum interest coverage. Specifically, the Company s leverage ratio could not exceed 3.0 and the Company s interest coverage ratio could not be less than 3.0. As of September 30, 2015, the Company was in compliance with the covenants of the Amended Credit Agreement. In addition to the financial ratios, the Amended Credit Agreement restricted, 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 could have resulted in an event of default on the Amended Credit Agreement, which could have permitted acceleration of the debt and required the Company to prepay the 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.

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 September 30, 2015 (in millions):

	Weighted Average Interest Rate	Total Amount Committed by Lenders	Outstanding Borrowings	Outstanding Lines of Credit	Total Amount Available
Amended Credit Agreement	1.5%	$ 250.0	$ 129.5	$ 2.7	$ 117.8
Other revolving lines of credit		212.8		132.2	80.6
Total revolving lines of credit		$ 462.8	$ 129.5	$ 134.9	$ 198.4

On October 27, 2015, the Company entered into a new revolving credit agreement, referred to as the 2015 Credit Agreement, and terminated the Amended Credit Agreement. The 2015 Credit Agreement provides a maximum commitment on the Company s revolving credit line of $500.0 million and a maturity date of October 2020. Borrowings under the revolving credit line of the 2015 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%, plus margins ranging from 0.00% to 0.30% or (b) LIBOR, plus margins ranging from 0.90% to 1.30%. There is also a facility fee ranging from 0.10% to 0.20%.

Borrowings under the 2015 Credit Agreement are secured by guarantees from certain material subsidiaries, as defined in the 2015 Credit Agreement. The 2015 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 3.5 and the Company s interest coverage ratio cannot be less than 2.5. In addition to the financial ratios, the 2015 Credit Agreement contains negative covenants, including among others, restrictions on liens, indebtedness of the Company and its subsidiaries, asset sales, dividends and transactions with affiliates. Failure to comply with any of these restrictions or covenants may result in an event of default on the 2015 Credit Agreement, which could permit acceleration of the debt and require the Company to prepay the debt before its scheduled due date.

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:

- $20.0 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

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- $100.0 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 Senior Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest.

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 September 30, 2015, the Company was in compliance with the covenants of the Note Purchase Agreement.

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 $129.5 million at September 30, 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 exchange contracts in order to minimize the volatility that fluctuations in foreign currency 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 exchange contracts at September 30, 2015 and December 31, 2014 (in millions):

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Buy	Notional Amount in Buy Currency	Sell	Maturity	Notional Amount in U.S. Dollars	Fair Value of Assets	Fair Value of Liabilities
September 30, 2015:						
Euro	56.4	U.S. Dollars	October 2015	$ 61.7	$ 1.3	$
U.S. Dollars	0.1	Euro	December 2015	0.1		
Swiss Francs	36.7	U.S. Dollars	October 2015	38.3		0.6
				$ 100.1	$ 1.3	$ 0.6
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		
Euro	0.1	British Pounds	January 2015 to June 2015	0.1		
Yen	5.7	Euro	March 2015	0.1		