

BROOKS AUTOMATION INC

Form 10-Q

February 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended: December 31, 2006**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-25434  
BROOKS AUTOMATION, INC.**

(Exact name of registrant as specified in its charter)

Delaware

04-3040660

(State or other jurisdiction of  
incorporation or organization)

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

15 Elizabeth Drive  
Chelmsford, Massachusetts

(Address of principal executive offices)  
01824

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING  
FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date, January 31, 2007:

Common stock, \$0.01 par value

75,677,238 shares



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BROOKS AUTOMATION, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

(In thousands, except share and per share data)

	December 31, 2006	September 30, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 134,118	\$ 115,773
Marketable securities	33,956	68,280
Accounts receivable, net	120,177	113,440
Inventories, net	105,508	99,854
Current assets from discontinued operations	22,384	15,277
Prepaid expenses and other current assets	19,773	20,188
Total current assets	435,916	432,812
Property, plant and equipment, net	76,222	76,667
Long-term marketable securities	16,026	7,307
Goodwill	313,657	314,452
Intangible assets, net	88,388	92,213
Non-current assets from discontinued operations	42,065	42,047
Equity investment in Ulvac Cryogenics, Inc.	21,825	21,489
Other assets	5,598	5,590
Total assets	\$ 999,697	\$ 992,577
Liabilities, minority interests and stockholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 8	\$ 11
Accounts payable	65,108	69,270
Deferred revenue	7,872	8,261
Accrued warranty and retrofit costs	11,895	11,608
Accrued compensation and benefits	18,172	25,999
Accrued restructuring costs	5,981	7,254
Accrued income taxes payable	15,153	17,773
Current liabilities from discontinued operations	22,027	21,223
Accrued expenses and other current liabilities	16,177	18,780
Total current liabilities	162,393	180,179
Long-term debt	9	2
Accrued long-term restructuring	8,370	9,289
Non-current liabilities from discontinued operations	1,014	963
Other long-term liabilities	2,697	2,616

Total liabilities	174,483	193,049
Contingencies (Note 12)		
Minority interests	230	394
Stockholders' equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.01 par value, 125,000,000 shares authorized, 75,561,192 and 75,431,592 shares issued and outstanding at December 31, 2006 and September 30, 2006, respectively	756	754
Additional paid-in capital	1,765,475	1,763,247
Accumulated other comprehensive income	16,913	15,432
Accumulated deficit	(958,160)	(980,299)
Total stockholders' equity	824,984	799,134
Total liabilities, minority interests and stockholders' equity	\$ 999,697	\$ 992,577

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

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BROOKS AUTOMATION, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share data)

	Three months ended December 31,	
	2006	2005
Revenues		
Product	\$ 160,325	\$ 84,811
Services	31,043	23,684
Total revenues	191,368	108,495
Cost of revenues		
Product	108,424	69,269
Services	23,262	13,763
Total cost of revenues	131,686	83,032
Gross profit	59,682	25,463
Operating expenses		
Research and development	13,090	9,208
Selling, general and administrative	30,996	25,627
Restructuring and acquisition-related charges		909
Total operating expenses	44,086	35,744
Income (loss) from continuing operations	15,596	(10,281)
Interest income	2,175	3,528
Interest expense	141	2,358
Equity in earnings of Ulvac Cryogenics, Inc.	371	222
Other (income) expense, net	542	411
Income (loss) from continuing operations before income taxes and minority interests	17,459	(9,300)
Income tax provision	644	324
Income (loss) from continuing operations before minority interests	16,815	(9,624)
Minority interests in loss of consolidated subsidiaries	(164)	(198)
Income (loss) from continuing operations	16,979	(9,426)
Income (loss) from discontinued operations, net of income taxes	5,160	(2,274)
Net income (loss)	\$ 22,139	\$ (11,700)
Basic income (loss) per share from continuing operations	\$ 0.23	\$ (0.14)

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Basic income (loss) per share from discontinued operations	0.07	(0.03)
Basic net income (loss) per share	\$ 0.30	\$ (0.18)
Diluted income (loss) per share from continuing operations	\$ 0.23	\$ (0.14)
Diluted income (loss) per share from discontinued operations	0.07	(0.03)
Diluted net income (loss) per share	\$ 0.30	\$ (0.18)
Shares used in computing income (loss) per share		
Basic	74,595	66,112
Diluted	74,999	66,112

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



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BROOKS AUTOMATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(In thousands)

	Three months ended December 31,	
	2006	2005
Cash flows from operating activities		
Net income (loss)	\$ 22,139	\$ (11,700)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,313	7,907
Stock-based compensation	2,143	2,475
Discount on marketable securities	(229)	(760)
Amortization of debt issuance costs		210
Undistributed earnings of joint venture	(371)	(222)
Minority interests	(164)	(198)
Loss on disposal of long-lived assets	313	97
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(13,699)	8,854
Inventories	(5,256)	6,084
Prepaid expenses and other current assets	1,271	(3,353)
Accounts payable	(4,237)	6,108
Deferred revenue	694	(2,994)
Accrued warranty and retrofit costs	274	(1,036)
Accrued compensation and benefits	(8,005)	(1,862)
Accrued restructuring costs	(2,201)	(2,738)
Accrued expenses and other current liabilities	(4,456)	1,201
Net cash provided by (used in) operating activities	(3,471)	8,073
Cash flows from investing activities		
Purchases of property, plant and equipment	(3,984)	(2,881)
Acquisition of Helix Technology, cash acquired net of expenses		9,003
Acquisition of Synetics Solutions, net of cash acquired	(38)	
Purchases of marketable securities	(75,580)	(206,834)
Sale/maturity of marketable securities	100,550	182,679
Decrease in other assets		(188)
Net cash provided by (used in) investing activities	20,948	(18,221)
Cash flows from financing activities		
Payments of long-term debt and capital lease obligations	(1)	(2)
Proceeds from issuance of common stock, net of issuance costs	367	626
Net cash provided by financing activities	366	624
Effects of exchange rate changes on cash and cash equivalents	502	795

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Net increase (decrease) in cash and cash equivalents	18,345	(8,729)
Cash and cash equivalents, beginning of period	115,773	202,462
Cash and cash equivalents, end of period	\$ 134,118	\$ 193,733

Supplemental cash flow information

Non-cash transactions:

Acquisition of Helix Technology, net of transaction costs	\$	\$ 447,949
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**BROOKS AUTOMATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**1. Basis of Presentation**

The unaudited condensed consolidated financial statements of Brooks Automation, Inc. and its subsidiaries ( Brooks or the Company ) included herein have been prepared in accordance with generally accepted accounting principles. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected.

Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted and, accordingly, the accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission for the year ended September 30, 2006. Certain reclassifications have been made in the prior period consolidated financial statements to conform to the current presentation.

**Recently Enacted Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements ( SFAS 154 ). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. On October 1, 2006, the Company adopted SFAS 154 and did not realize a material impact on its financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance will become effective as of the beginning of the Company s fiscal year beginning after December 15, 2006. The Company is currently evaluating the potential impact of FIN No. 48 on its financial position and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ) expressing the Staff s views regarding the process of quantifying financial statement misstatements. There have been two widely-recognized methods for quantifying the effects of financial statement errors: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the Company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it essentially requires quantification of errors under both the iron-curtain and the roll-over methods. The provisions of SAB 108 should be applied to annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the provisions of SAB 108.



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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ) and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier adoption permitted. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with limited exceptions. The Company is currently evaluating the provisions of SFAS 157.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). SFAS 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to:

a. Recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation.

b. Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers Accounting for Pensions*, or SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of SFAS No. 87 and SFAS No. 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.

c. Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions).

d. Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. Retrospective application is not permitted. The Company is currently evaluating the provisions of SFAS 158.

**2. Stock Based Compensation***Effect of Adoption of SFAS 123R, Share-Based Payment*

As of October 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ) using the modified prospective method, which requires measurement of compensation cost for all stock awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest.

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The following table reflects compensation expense recorded during the three months ended December 31, 2006 and 2005 in accordance with SFAS 123R (in thousands):

	Three months ended December 31,	
	2006	2005
Stock options	\$ 801	\$ 1,863
Restricted stock	1,118	430
Employee stock purchase plan	224	182
	\$ 2,143	\$ 2,475

*Valuation Assumptions for Stock Options and Employee Stock Purchase Plans*

For the three months ended December 31, 2005, 217,000 stock options were granted. No stock options were granted during the three months ended December 31, 2006. The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended December 31,	
	2006	2005
Risk-free interest rate	n/a	4.4%
Volatility	n/a	55%
Expected life (years)	n/a	4.9
Dividend yield	n/a	0%

The fair value of shares issued under the employee stock purchase plan was estimated on the commencement date of each offering period using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended December 31,	
	2006	2005
Risk-free interest rate	5.2%	3.7%
Volatility	40%	32%
Expected life	6 months	6 months
Dividend yield	0%	0%

Expected volatilities are based on historical volatilities of our common stock; the expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

*Equity Incentive Plans*

The Company's equity incentive plans are intended to attract and retain employees and to provide an incentive for them to assist the Company to achieve long-range performance goals and to enable them to participate in the long-term growth of the Company. The equity incentive plans consist of plans under which employees may be granted options to purchase shares of the Company's stock, restricted stock and other equity incentives. Under the equity incentive plans, stock options generally have a vesting period of 4 years and are exercisable for a period not to exceed 7 years from the date of issuance. Restricted stock awards generally vest over one to four years. At December 31, 2006, a total of 6,311,953 shares were reserved and available for the issuance of stock and restricted stock, which reflects an increase of 3,000,000 shares approved by the shareholders in March 2006.

*Stock Option Activity*

The following table summarizes stock option activity for the three months ended December 31, 2006:

	Number of Options	Weighted Average Exercise Price
Outstanding at September 30, 2006	4,790,477	\$ 21.51
Granted		
Exercised	(30,156)	12.16
Forfeited/expired	(532,914)	24.96
Outstanding at December 31, 2006	4,227,407	\$ 21.15
Options exercisable at December 31, 2006	3,605,715	\$ 22.20

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The options outstanding and exercisable at December 31, 2006 were in the following exercise price ranges:

Range of	Options Outstanding				Options Exercisable			
	Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Price Exercise	Aggregate Intrinsic Value (in Thousands)	Shares	Weighted-Average Price Exercise	Aggregate Intrinsic Value (in Thousands)
\$3.62 \$14.40	1,091,030	4.36	\$ 11.24	\$3,442	799,415	\$ 10.88	\$2,811	
\$14.45 \$24.02	1,034,837	4.33	\$ 18.30	\$	712,281	\$ 18.73	\$	
\$24.30 \$24.30	1,166,620	2.80	\$ 24.30	\$	1,159,099	\$ 24.30	\$	
\$24.91 \$59.44	934,920	1.68	\$ 31.92	\$	934,920	\$ 31.92	\$	
\$3.62 \$59.44	4,227,407	3.33	\$ 21.15	\$3,442	3,605,715	\$ 22.20	\$2,811	

The weighted average remaining contractual life of options exercisable at December 31, 2006 was 2.9 years.

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$14.40 as of December 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of December 31, 2006 was 799,415.

The weighted average grant date fair value of options, as determined under SFAS No. 123R, granted during the three months ended December 31, 2005 was \$6.61 per share. No stock options were granted during the three months ended December 31, 2006. The total intrinsic value of options exercised during the three month period ended December 31, 2006 and 2005 was \$53,000 and \$212,000, respectively. The total cash received from employees as a result of employee stock option exercises during the three months ended December 31, 2006 and 2005 was \$367,000 and \$626,000, respectively.

As of December 31, 2006 future compensation cost related to nonvested stock options is approximately \$5.0 million and will be recognized over an estimated weighted average period of 2.2 years.

The Company settles employee stock option exercises with newly issued common shares.

*Restricted Stock Activity*

Restricted stock for the three months ended December 31, 2006 was determined using the fair value method. A summary of the status of the Company's restricted stock as of December 31, 2006 and changes during the three months ended December 31, 2006 is as follows:

	Three months ended December 31, 2006	
	Shares	Weighted Average Grant-Date Fair Value
Outstanding at beginning of year	895,750	\$ 13.79
Awards granted	125,000	14.31
Awards vested	(75,250)	15.92
Awards canceled	(4,500)	13.36
Outstanding at end of period	941,000	\$ 13.69

The fair value of restricted stock awards vested during the three months ended December 31, 2006 and 2005 was \$1.2 million for each quarter.



As of December 31, 2006, the unrecognized compensation cost related to nonvested restricted stock is \$9.5 million and will be recognized over an estimated weighted average amortization period of 2.7 years.

**Table of Contents***Employee Stock Purchase Plan*

The Company's employee stock purchase plan enables eligible employees to purchase shares of the Company's common stock. Under this plan, eligible employees may purchase shares during six-month offering periods commencing on February 1 and August 1 of each year at a price per share of 85% of the lower of the fair market value price per share on the first or last day of each six-month offering period. Participating employees may elect to have up to 10% of their base pay withheld and applied toward the purchase of such shares. The rights of participating employees under this plan terminate upon voluntary withdrawal from the plan at any time or upon termination of employment. There were no shares purchased under the employee stock purchase plan during the three months ended December 31, 2006. At December 31, 2006, a total of 1,448,238 shares were reserved and available for issuance under this plan, which reflects an increase of 750,000 shares approved by the shareholders in March 2006.

**3. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended December 31, 2006 is as follows (in thousands):

	<b>Total</b>
<b>Balance at September 30, 2006</b>	\$ 314,452
Adjustments to goodwill:	
Acquisition of Helix Technology	(833)
Acquisition of Syntetics Solutions	38
<b>Balance at December 31, 2006</b>	\$ 313,657

Components of the Company's identifiable intangible assets are as follows (in thousands):

	December 31, 2006			September 30, 2006		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book Value
Patents	\$ 9,787	\$ 6,770	\$ 3,017	\$ 9,787	\$ 6,662	\$ 3,125
Completed technology	66,846	17,124	49,722	66,846	14,793	52,053
License agreements	305	305		305	305	
Trademark and trade names	4,962	1,175	3,787	4,962	980	3,982
Non-competition agreements	50	50		50	50	
Customer relationships	36,500	4,638	31,862	36,500	3,447	33,053
	\$ 118,450	\$ 30,062	\$ 88,388	\$ 118,450	\$ 26,237	\$ 92,213

Amortization expense for intangible assets was \$3.8 million and \$2.1 million for the three months ended December 31, 2006 and 2005, respectively.

**4. Business Acquisitions***Helix Technology Corporation*

On October 26, 2005, the Company acquired all the issued and outstanding stock of Helix Technology Corporation ( Helix ). Helix develops and manufactures vacuum technology solutions for the semiconductor, data storage, and flat panel display markets. The Company believes that the acquisition of Helix enables it to better serve its current market, increase its addressable market, reduce the volatility that both businesses have historically faced and positions the Company to enhance its financial performance. The aggregate purchase price, net of cash acquired, was approximately \$458.1 million, consisting of 29.0 million shares of common stock valued at \$444.6 million, the fair value of assumed

Helix options of \$3.3 million and transaction costs of \$10.2 million. The market price used to value the Brooks shares issued as consideration for Helix was \$15.32, which represents the average of the closing market price of Brooks common stock for the period beginning two trading days before and ending two trading days after the merger agreement was announced. The actual number of shares of Brooks common stock issued was determined based on the actual number of shares of Helix common stock outstanding immediately prior to the completion of the merger, based on an exchange ratio of 1.11 shares of Brooks common stock for each outstanding share of Helix common stock. This transaction qualified as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

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The consolidated financial statements include the results of Helix from the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition based upon a third-party valuation (in millions):

Current assets	\$ 79.9
Property, plant and equipment	15.4
Intangible assets	84.4
Goodwill	276.0
Other assets	20.8
 Total assets acquired	 476.5
 Current liabilities	 17.3
Other liabilities	1.1
 Total liabilities assumed	 18.4
 Total purchase price including acquisition costs	 \$ 458.1

Of the \$84.4 million of acquired intangible assets, the following table reflects the allocation of the acquired intangible assets and related estimates of useful lives (in millions):

Completed and core technology	\$ 56.4	6.9 years weighted average estimated useful life
Customer and contract relationships	23.3	6.9 years weighted average estimated economic consumption life
Trade names and trademarks	4.7	6 year weighted average estimated useful life
	 \$ 84.4	

***Synetics Solutions, Inc.***

On May 8, 2006, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Synetics Solutions Inc. (Synetics). Brooks completed its acquisition of Synetics from Yaskawa Electric Corporation (Yaskawa), a corporation duly organized and existing under the laws of Japan, through a merger that became effective as of June 30, 2006. Synetics provides customized manufactured solutions for the North American semiconductor equipment industry. Pursuant to the merger agreement, Synetics became a wholly owned subsidiary of Brooks. The aggregate purchase price of Synetics, net of cash acquired, was approximately \$50.2 million consisting of a \$28.6 million cash payment to Yaskawa, repayment of outstanding debt of \$19.9 million and transaction costs of \$1.7 million. The acquisition of Synetics will provide the Company with the opportunity to enhance its existing capabilities with respect to manufacturing customer designed automation systems.

Also on May 8, 2006, the Company agreed to enter into a Joint Venture Agreement (the Agreement) with Yaskawa to form a 50/50 joint venture called Yaskawa Brooks Automation, Inc. (YBA) to exclusively market and sell Yaskawa's semiconductor robotics products and Brooks' automation hardware products to semiconductor customers in Japan. This Agreement was executed on June 30, 2006.

The consolidated financial statements include the results of Synetics from the date of acquisition and recognize the Company's equity investment in YBA which began operations on September 21, 2006.

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition based upon a third-party valuation (in millions):

Current assets	\$ 19.8
Property, plant and equipment	8.6
Intangible assets	17.4
Goodwill	12.6
Other assets	0.1
 Total assets acquired	 58.5
 Current liabilities	 8.3
 Total purchase price including acquisition costs	 \$ 50.2

Of the \$17.4 million of acquired intangible assets, the following table reflects the allocation of the acquired intangible assets and related estimates of useful lives (in millions):

Core technology	\$ 4.2	7 years weighted average estimated useful life
Customer and contract relationships	4.8	7 years weighted average estimated economic consumption life
Customer supply agreement	8.4	10 year weighted average estimated useful life
	\$ 17.4	

**5. Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2006 and September 30, 2006 were as follows (in thousands):

	December 31, 2006	September 30, 2006
Buildings and land	\$ 45,469	\$ 45,421
Computer equipment and software	47,898	48,476
Machinery and equipment	40,875	40,475
Furniture and fixtures	12,093	12,078
Leasehold improvements	22,828	22,873
Construction in progress	8,499	5,380
	177,662	174,703
Less accumulated depreciation and amortization	(101,440)	(98,036)
Property, plant and equipment, net	\$ 76,222	\$ 76,667

Depreciation expense was \$4.3 million and \$4.7 million for the three months ended December 31, 2006 and 2005, respectively.

**6. Earnings (Loss) per Share**

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

	Three months ended December 31,	
	2006	2005
Weighted average common shares outstanding used in computing basic earnings (loss) per share	74,595	66,112
Dilutive common stock options and restricted stock awards	404	
Weighted average common shares outstanding for purposes of computing diluted earnings (loss) per share	74,999	66,112

Approximately 3,847,000 and 5,451,000 options to purchase common stock and 0 and 32,000 shares of restricted stock were excluded from the computation of diluted earnings (loss) per share attributable to common stockholders for the three months ended December 31, 2006 and 2005, respectively, as their effect would be anti-dilutive. The 3,847,000 options for the three months ended December 31, 2006 had an exercise price greater than the average market price of the common stock. In addition, 2,492,000 shares of common stock for the assumed conversion of the Company's convertible debt was excluded from this calculation for the three months ended December 31, 2005 as the effect of conversion would be anti-dilutive based on a conversion price of \$70.23. These options and restricted stock could, however, become dilutive in future periods. The Company paid off the convertible debt in full on July 17, 2006.

**Table of Contents****7. Discontinued Operations*****Brooks Software Division***

On November 3, 2006, the Company's Board of Directors committed to a formal plan of disposal of the Company's software division, Brooks Software, and entered into an Asset Purchase Agreement (the Purchase Agreement) with Applied Materials, Inc. (Applied), a Delaware corporation. Under the terms of the Purchase Agreement, the Company will divest and sell its software division, Brooks Software, to Applied for \$125 million in cash consideration. The Company will transfer to Applied substantially all of its assets primarily related to Brooks Software, including the stock of several subsidiaries engaged only in the business of Brooks Software, and Applied will assume certain liabilities related to Brooks Software. The Company is selling its software division in order to focus on its core semiconductor-related hardware businesses. The Company expects to recognize a gain on disposal of the software division.

Completion of the transaction is subject to several conditions, including clearance under applicable antitrust laws, and other customary closing conditions. The Company anticipates that the transaction will close by the end of the second fiscal quarter of 2007.

Applied Materials purchases significant amounts of manufacturing equipment from the Company and is among Brooks' largest customers for such products.

The Company's consolidated financial statements and notes have been reclassified to reflect this business as a discontinued operation in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

***Specialty Equipment and Life Sciences division ( SELS )***

In June 2005, the Company signed definitive purchase and sale agreements to sell substantially all the assets of the Company's Specialty Equipment and Life Sciences division ( SELS ), formerly known as IAS, which provided standard and custom automation technology and products for the semiconductor, photonics, life sciences and certain other industries. This sale was completed and all activities of SELS ceased during the fourth quarter of fiscal 2005. Effective June 2005, the Company's consolidated financial statements and notes have been reclassified to reflect this business as a discontinued operation in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

The summary of operating results from discontinued operations of the software division and SELS is as follows (in thousands):

	Three months ended December 31,	
	2006	2005
Revenues	\$21,534	\$18,732
Gross profit	14,622	11,523
Income (loss) from discontinued operations, net of income taxes	5,160	(2,274)

The income of \$5,160,000 for the three months ended December 31, 2006 includes the recognition of a tax benefit resulting from the reversal of tax reserves due to an audit settlement of \$2,100,000. There was no SELS activity for the three months ended December 31, 2006. For the three months ended December 31, 2005, there was \$52,000 of SELS activity for revenue, gross profit and income from discontinued operations, net of tax.

Assets and liabilities from discontinued operations are as follows (in thousands):

	December 31, 2006	September 30, 2006
Current assets from discontinued operations	\$22,384	\$15,277
Non-current assets from discontinued operations	\$42,065	\$42,047
Current liabilities from discontinued operations	\$22,027	\$21,223
Non-current liabilities from discontinued operations	\$1,014	\$963





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Current assets include accounts receivable and other current assets. Current liabilities include accounts payable, deferred revenue, accrued vacation and other current liabilities. There were no SELS assets and liabilities from discontinued operations as of December 31, 2006 or September 30, 2006.

**8. Comprehensive Income (Loss)**

Comprehensive income (loss) for the Company is computed as the sum of the Company's net income (loss), the change in the cumulative translation adjustment and the total unrealized gain (loss) on the Company's marketable securities. The calculation of the Company's comprehensive income (loss) for the three months ended December 31, 2006 and 2005 is as follows (in thousands):

	Three months ended December 31,	
	2006	2005
Net income (loss)	\$ 22,139	\$ (11,700)
Change in cumulative translation adjustment	1,345	(423)
Unrealized gain (loss) on marketable securities	135	323
	\$ 23,619	\$ (11,800)

**9. Restructuring-Related Charges and Accruals**

The Company did not incur restructuring-related charges to continuing operations in the three months ended December 31, 2006. The Company recorded a charge to continuing operations of \$900,000 in the three months ended December 31, 2005. This charge consisted of \$900,000 associated with the termination of 16 employees worldwide in sales, service and administrative functions, whose positions were made redundant as a result of the Helix acquisition, \$300,000 for retention bonuses earned in the period by employees who had been notified of their termination, and a \$300,000 reversal of previously accrued termination costs to employees which were settled at a reduced cost.

The Company recorded a charge to operations of \$300,000 related to the discontinued software business for the three month period ended December 31, 2005. This charge consisted of \$100,000 associated with the termination of 6 employees as part of an overall restructuring program begun in the previous quarter, \$400,000 for retention bonuses earned in the period by employees who had been notified of their termination, and a \$200,000 reversal of previously accrued termination costs to employees whose termination was cancelled or settled at a reduced cost.

The activity for the three months ended December 31, 2006 and 2005 related to the Company's restructuring-related accruals is summarized below:

	Activity	Three Months Ended December 31, 2006		
	Balance September 30, 2006	Expense	Utilization	Balance December 31, 2006
Facilities	\$ 13,697	\$	\$ (1,211)	\$ 12,486
Workforce-related	2,846	20	(1,001)	1,865
	\$ 16,543	\$ 20	\$ (2,212)	\$ 14,351

	Activity	Three Months Ended December 31, 2005		
	Balance September 30, 2005	Expense	Reversals	Utilization

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			Helix Acquisition			
Facilities	\$ 15,045	\$	\$	\$	\$ (1,085)	\$ 13,960
Workforce-related	8,429	1,708	1,749	(486)	(2,878)	8,522
	\$ 23,474	\$ 1,708	\$ 1,749	\$ (486)	\$ (3,963)	\$ 22,482

Workforce related charges include \$20,000 and \$313,000 for the three months ended December 31, 2006 and 2005, respectively, related to discontinued operations.

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The Company expects the majority of the remaining severance costs totaling \$1,900,000 will be paid over the next twelve months. The expected facilities costs, totaling \$12,500,000, net of estimated sub-rental income, will be paid on leases that expire through September 2011.

**10. Employee Benefit Plans**

The components of the Company's net pension cost relating to a noncontributory defined benefit pension plan acquired with the Helix acquisition for the three months ended December 31, 2006 and 2005 is as follows (in thousands):

	Three months ended December 31, 2006	Three months ended December 31, 2005
Service cost	\$ 63	\$ 389
Interest cost	174	257
Expected return on assets	(250)	(183)
Net periodic pension cost	\$ (13)	\$ 463

In conjunction with the acquisition of Helix, the Company closed the defined benefit pension plan to new hires and approved the decision to freeze the plan such that no further benefits would accrue after October 31, 2006. The impact of this decision has been reflected in the purchase price allocation described in Note 4.

The Company does not expect to make contributions to the pension plan in fiscal 2007 given that the plan has been frozen.

**11. Other Balance Sheet Information**

Components of other selected captions in the Consolidated Balance Sheets are as follows (in thousands):

	December 31, 2006	September 30, 2006
Accounts receivable	\$ 121,670	\$ 115,149
Less allowances	1,493	1,709
	\$ 120,177	\$ 113,440
Inventories		
Raw materials and purchased parts	\$ 48,428	\$ 48,996
Work-in-process	33,108	25,064
Finished goods	23,972	25,794
	\$ 105,508	\$ 99,854

The Company provides for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized and retrofit accruals at the time retrofit programs are established. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Product warranty and retrofit activity on a gross basis for three months ended December 31, 2006 and 2005 is as follows (in thousands):

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Activity Three Months Ended December 31, 2006

Balance September 30, 2006				Balance December 31, 2006
\$ 11,608	Accruals	\$ 3,280	Settlements	\$ 11,895
			\$ (2,993)	

Activity Three Months Ended December 31, 2005

Balance September 30, 2005				Balance December 31, 2005
\$ 9,782	Accruals	\$ 1,980	Settlements	\$ 9,991
			\$ (1,771)	

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The accrual of \$1,980,000 for the three months ended December 31, 2005 includes the acquired warranty liability of \$1,262,000 from Helix at date of acquisition.

**12. Contingencies**

There has been substantial litigation regarding patent and other intellectual property rights in the semiconductor and related industries. The Company has in the past been, and may in the future be, notified that it may be infringing intellectual property rights possessed by other third parties. The Company cannot guarantee that infringement claims by third parties or other claims for indemnification by customers or end users of its products resulting from infringement claims will not be asserted in the future or that such assertions, if proven to be true, will not materially and adversely affect the Company's business, financial condition and results of operations. If any such claims are asserted against the Company's intellectual property rights, the Company may seek to enter into a royalty or licensing arrangement. The Company cannot guarantee, however, that a license will be available on reasonable terms or at all. The Company could decide in the alternative to resort to litigation to challenge such claims or to attempt to design around the patented technology. Litigation or an attempted design around could be costly and would divert the Company's management's attention and resources. In addition, if the Company does not prevail in such litigation or succeed in an attempted design around, the Company could be forced to pay significant damages or amounts in settlement. Even if a design around is effective, the functional value of the product in question could be greatly diminished.

*Other Commercial Litigation Matters*

In January 2006 a ruling was issued against the Company by a Massachusetts state court in a commercial litigation matter involving the Company and BlueShift Technologies, Inc. Awards of damages and costs were assessed against Brooks in January and April 2006 in the amount of approximately \$1.6 million, which had been accrued for at December 31, 2005. Brooks has filed a notice of appeal in the case with the Massachusetts Appeals Court and that appeal is now pending.

*Proceedings Relating to Equity Incentive Practices and the Restatement*

On May 12, 2006, the Company announced that it had received notice that the Boston Office of the United States Securities and Exchange Commission (the SEC) was conducting an informal inquiry concerning stock option grant practices to determine whether violations of the securities laws had occurred. On June 2, 2006, the SEC issued a voluntary request for information in connection with an informal inquiry by that office regarding a loan the Company previously reported had been made to former Chairman and CEO Robert Therrien in connection with the exercise by him of stock options in 1999. On June 23, 2006, the Company was informed that the SEC had opened a formal investigation into this matter and on the general topic of the timing of stock option grants. On June 28, 2006, the SEC issued subpoenas to the Company and to the Special Committee of the Board of Directors, which had previously been formed on March 8, 2006, requesting documents related to the Company's stock option grant practices and to the loan to Mr. Therrien.

On May 19, 2006, the Company received a grand jury subpoena from the United States Attorney (the DOJ) for the Eastern District of New York requesting documents relating to stock option grants. Responsibility for the DOJ's investigation was subsequently assumed by the United States Attorney for the District of Massachusetts. On June 22, 2006 the United States Attorney's Office for the District of Massachusetts issued a grand jury subpoena to the Company in connection with an investigation by that office into the timing of stock option grants by the Company and the loan to Mr. Therrien mentioned above.

The Company is cooperating fully with the investigations being conducted by the SEC and the DOJ.

*Private Litigation*

On May 22, 2006, a derivative action was filed nominally on the Company's behalf in the Superior Court for Middlesex County, Massachusetts, captioned as Mollie Gedell, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. A. Clinton Allen, *et al.* The Defendants named in the complaint are: A. Clinton Allen, Director of the Company; Roger D. Emerick, former Director of the Company; Edward C. Grady, Director, President and CEO of the Company; Amin J. Khoury, former Director of the Company; Joseph R. Martin, Director

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of the Company; John K. McGillicuddy, Director of the Company; and Robert J. Therrien, former Director, President and CEO of the Company.

On May 26, 2006, a derivative action was filed in the Superior Court for Middlesex County, Massachusetts nominally on the Company's behalf, captioned as Ralph Gorgone, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. Edward C. Grady, *et al.* The Defendants named in the complaint are: Mr. Grady; Mr. Allen; Mr. Emerick; Mr. Khoury; Robert J. Lepofsky, Director of the Company; Mr. Martin; Mr. McGillicuddy; Krishna G. Palepu, Director of the Company; Alfred Woollacott, III, Director of the Company; Mark S. Wrighton, Director of the Company; and Marvin Schorr, Director Emeritus of the Company.

On August 4, 2006 the Superior Court for Middlesex County, Massachusetts, entered an order consolidating the above state derivative actions under docket number 06-1808 and the caption *In re Brooks Automation, Inc. Derivative Litigation*. On September 5, 2006, the Plaintiffs filed a Consolidated Shareholder Derivative Complaint; the Defendants named therein are: Mr. Allen, Mr. Martin, Mr. Grady, Mr. McGillicuddy, Mr. Therrien, Mr. Emerick, and Mr. Khoury; Robert W. Woodbury, Jr., the Company's Chief Financial Officer; Joseph Bellini, President and Chief Operating Officer of the Company's Enterprise Software Group, and Thomas S. Grilk, Secretary and General Counsel of the Company, current Officers of the Company; current employee Michael W. Pippins, Stanley D. Piekos and Ellen B. Richstone, the Company's former Chief Financial Officers; and David R. Beaulieu, Jeffrey A. Cassis, Santo DiNaro, Peter Frasso, Robert A. McEachern, Dr. Charles M. McKenna, James A. Pelusi, Michael F. Werner, former Officers and employees of the Company. The Consolidated Shareholder Derivative Complaint alleges that certain current and former directors and officers breached fiduciary duties owed to Brooks by backdating stock option grants, issuing inaccurate financial results and false or misleading public filings, and that Messrs. Therrien, Emerick and Khoury breached their fiduciary duties, and Mr. Therrien was unjustly enriched, as a result of the loan to and stock option exercise by Mr. Therrien mentioned above, and seeks, on our behalf, damages for breaches of fiduciary duty and unjust enrichment, disgorgement to the Company of all profits from allegedly backdated stock option grants, equitable relief, and Plaintiffs' costs and disbursements, including attorneys' fees, accountants' and experts' fees, costs, and expenses. The Defendants served motions to dismiss and, in response, Plaintiffs have moved for leave to amend their Complaint. The Proposed Amended Complaint makes allegations substantially similar to those in the Consolidated Shareholder Derivative Complaint, and adds as Defendants Richard C. Small, Senior Vice President and Corporate Controller of the Company, and Mr. Woolacott, Mr. Wrighton, Mr. Lepofsky, and Mr. Palepu, Directors of the Company. If the Court grants Plaintiffs leave to file an amended complaint, Defendants, including the Company, anticipate filing motions to dismiss directed at the amended complaint.

On May 30, 2006, a derivative action was filed in the United States District Court for the District of Massachusetts, captioned as Mark Collins, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. Robert J. Therrien, *et al.* The defendants in the action are: Mr. Therrien; Mr. Allen; Mr. Emerick; Mr. Grady; Mr. Khoury; Mr. Martin; and Mr. McGillicuddy.

On June 7, 2006, a derivative action was filed in the United States District Court for the District of Massachusetts, captioned as City of Pontiac General Employees' Retirement System, Derivatively on Behalf of Brooks Automation, Inc. v. Robert J. Therrien, *et al.* The Defendants in this action are: Mr. Therrien; Mr. Emerick; Mr. Khoury; Mr. Allen; Mr. Grady; Mr. Lepofsky; Mr. Martin; Mr. McGillicuddy; Mr. Palepu; Mr. Woollacott, III; Mr. Wrighton; and Mr. Schorr.

The District Court issued an Order consolidating the above federal derivative actions on August 15, 2006, and a Consolidated Verified Shareholder Derivative Complaint was filed on October 6, 2006; the Defendants named therein are: Mr. Allen, Mr. Grady, Mr. Lepofsky, Mr. Martin, Mr. McGillicuddy, Mr. Palepu, Mr. Schorr, Mr. Woollacott, Mr. Wrighton, Mr. Woodbury, Mr. Therrien, Mr. Emerick, Mr. Khoury, and Mr. Werner. The Consolidated Verified Shareholder Derivative Complaint alleges violations of Section 10(b) and Rule 10b-5 of the Exchange Act; Section 14(a) of the Exchange Act; Section 20(a) of the Exchange Act; breach of fiduciary duty; corporate waste; and unjust enrichment, and seeks, on behalf of Brooks, damages, extraordinary equitable relief including disgorgement and a constructive trust for improvidently granted stock options or proceeds from alleged insider trading by certain defendants, Plaintiffs' costs and disbursements including attorneys' fees, accountants' and experts' fees, costs and expenses. On December 27, 2006, the Court granted Defendants' motion to stay the federal derivative actions in favor

of the first-filed state derivative action described above.

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On June 19, 2006, a putative class action was filed in the United States District Court, District of Massachusetts, captioned as Charles E. G. Leech Sr. v. Brooks Automation, Inc., *et al.* The defendants in this action are: the Company; Mr. Therrien; Ellen Richstone, the Company's former Chief Financial Officer; Mr. Emerick; Mr. Khoury; Robert W. Woodbury, Jr., the Company's Chief Financial Officer; and Mr. Grady. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 against us and the individual defendants; Section 20(a) of the Exchange Act against the individual defendants; Section 11 of the Securities Act against us and Messrs. Grady, Woodbury, Emerick, Khoury and Therrien; Section 12 of the Securities Act against us and Messrs. Grady, Woodbury, Emerick, Khoury and Therrien; and Section 15 of the Securities Act against Messrs. Grady, Woodbury, Emerick, Khoury and Therrien. The complaint seeks, *inter alia*, damages, including interest, and plaintiff's costs.

On July 19, 2006, a putative class action was filed in the United States District Court for the District of Massachusetts, captioned as *James R. Shaw v. Brooks Automation, Inc.* et al., No. 06-11239-RWZ. The Defendants in the case are the Company, Mr. Therrien, Ms Richstone, Mr. Emerick, Mr. Khoury, Mr. Woodbury, and Mr. Grady. As of this date, the Company has not been served with the complaint. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 against all defendants and violations of Section 20(a) of the Exchange Act against all individual defendants. The complaint seeks, *inter alia*, damages, including interest, and plaintiff's costs. On December 13, 2006, the Court issued an order consolidating the *Shaw* action with the *Leech* action described above and appointing a lead plaintiff and lead counsel. The lead plaintiff has until February 12, 2007 to file a Consolidated Amended Complaint.

On August 22, 2006, an action captioned as *Mark Levy v. Robert J. Therrien and Brooks Automation, Inc.*, was filed in the United States District Court for the District of Delaware, seeking recovery, on behalf of the Company, from Mr. Therrien under Section 16(b) of the Securities Exchange Act of 1934 for alleged short-swing profits earned by Mr. Therrien due the loan and stock option exercise in November 1999 referenced above, and a sale by Mr. Therrien of Brooks stock in March 2000. The Complaint seeks disgorgement of all profits earned by Mr. Therrien on the transactions, attorneys' fees and other expenses. Defendants have filed motions to dismiss.

The Company is aware of additional proposed class actions, posted on the websites of various law firms. The Company is not yet aware of the filing of any such actions and has not been served with a complaint or any other process in any of these matters.

*Matter to which the Company is Not a Party*

## Jenoptik-Asyst Litigation

The Company acquired certain assets, including a transport system known as IridNet, from the Infab division of Jenoptik AG on September 30, 1999. Asyst Technologies, Inc. had previously filed suit against Jenoptik AG and other defendants, or collectively, the defendants, in the Northern District of California charging that products of the defendants, including IridNet, infringe Asyst's U.S. Patent Nos. 4,974,166, or the 166 patent, and 5,097,421, or the 421 patent. Asyst later withdrew its claims related to the 166 patent from the case. Summary judgment of noninfringement was granted in that case by the District Court and judgment was issued in favor of Jenoptik on the ground that the product at issue did not infringe the asserted claims of the 421 patent. However, Asyst appealed the adverse judgment to the Court of Appeals for the Federal Circuit. In its decision on that appeal the Court of Appeals affirmed a portion of the District Court's grant of summary judgment in favor of Jenoptik but also reversed another portion of that judgment and reinstated one of Asyst's other claims. On the basis of that order and the claim construction guidance furnished by the Court of Appeals, the District Court issued an order granting summary judgment in favor of Asyst on one of its infringement claims against Jenoptik.

The Company had received notice that Asyst might amend its complaint in this Jenoptik litigation to name Brooks as an additional defendant, but no such action was ever taken. Based on the Company's investigation of Asyst's allegations, the Company does not believe it is infringing any claims of Asyst's patents. Asyst may decide to seek to prohibit the Company from developing, marketing and using the IridNet product without a license. The Company cannot guarantee that a license would be available to Brooks on reasonable terms, if at all. In any case, the Company could face litigation with Asyst. Jenoptik has agreed to indemnify the Company for any loss Brooks may incur in this action.





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On January 5, 2007, Brooks announced that it had received a request for additional information, commonly referred to as a Second Request, from the Antitrust Division of the U.S. Department of Justice (DOJ) in connection with Brooks' pending sale of its Software Division to Applied Materials, Inc. The Second Request was issued under notification requirements of the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended (HSR Act). The effect of the Second Request is to extend the waiting period imposed by the HSR Act until 30 days after Brooks has substantially complied with the Second Request and Applied Materials has substantially complied with the Second Request that it has received, unless that period is extended voluntarily by the parties or terminated sooner by the DOJ. Brooks intends to respond expeditiously to the Second Request and to work towards a prompt closing of the proposed transaction, which Brooks anticipates will occur by the end of the second fiscal quarter of 2007.

In addition, on February 6, 2007, the Company announced that competition authorities have cleared the transaction, or the applicable waiting period has passed without action by applicable competition authorities, in each of the foreign jurisdictions where a filing was required.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements which involve known risks, uncertainties and other factors which may cause the actual results, our performance or our achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include the Risk Factors which are set forth in our Annual Report on Form 10-K and which are incorporated herein by reference and summarized in Part II, Item 1A of this report. Precautionary statements made in our Annual Report on Form 10-K or in Part II, Item 1A of this report should be read as being applicable to all related forward-looking statements whenever they appear in this report.

**Overview**

Brooks Automation, Inc. (Brooks, we, us or our) is a leading supplier of technology products and solutions primarily serving the worldwide semiconductor market. We supply products and services to both chip manufacturers and original equipment manufacturers, or OEMs, who make semiconductor device manufacturing equipment. We are a technology and market leader with offerings ranging from individual hardware and software modules to fully integrated systems as well as services to install and support our products world-wide. Although our core business addresses the increasingly complex automation and integrated subsystems requirements of the global semiconductor industry, we also provide solutions for a number of related industries, including the flat panel display manufacturing, data storage and certain other industries which have complex manufacturing environments.

Our business is significantly dependent on capital expenditures by semiconductor manufacturers, which in turn are dependent on the current and anticipated market demand for integrated circuit (IC) chips and electronics equipment. To maintain manufacturing leadership and growth in the semiconductor industry, companies make significant capital expenditures in manufacturing equipment and investments in research and development. For example, investments in the production of chips that use advanced 90-nanometer (nm) and 65nm process technology are the enablers (increased chip performance, decreased power consumption and reduced cost) for a broad range of new products that are expected to help drive growth in the chip industry. Further advances in IC designs utilizing 45nm and smaller sizes continue to enable innovation and are driving the need for new manufacturing facilities and new generation processing equipment.

We offer a wide range of wafer handling products, vacuum subsystems and wafer transport platforms for use within the semiconductor process and metrology equipment. Our automation hardware products, historically the core products of Brooks, include wafer transfer robots and platforms, or systems that operate in either vacuum or atmospheric environments that are sold to equipment manufacturers. The Company also provides hardware directly to fabs including equipment for lithography that automate the storage, inspection and transport of photomasks, or reticles. Our vacuum products and subsystems include vacuum technology solutions such as cryogenic pumps for creating vacuum, products for measuring vacuum, and thermal management products that are used in manufacturing equipment for the semiconductor, data storage and flat panel display industries. Additionally, the Company leverages its domain knowledge and manufacturing expertise enhanced by the acquisition of Synetics Solutions, to



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build customer-designed automation ( CDA ) systems, or contract automation systems, in a program designed to help customers outsource their automation. The primary customers for these solutions are manufacturers of process equipment. Finally, the global customer service offerings provide customers with support for all our hardware offerings.

We are currently focusing our major efforts in the following aspects of our business:

Implementing global sourcing and manufacturing efficiency through expanded operations in the U.S., Mexico and Asia to be close to the customer;

Expanding our vacuum business globally with new products and new channels such as the newly formed joint venture in Japan with Yaskawa; and

Expanding our sales of equipment automation to the larger vertically integrated OEMs with new integrated sub-system, and automation system platforms, and through our CDA business.

## **Recent Developments**

On November 3, 2006, the Company's Board of Directors committed to a formal plan of disposal of our software division, Brooks Software, and entered into an Asset Purchase Agreement (the Purchase Agreement) with Applied Materials, Inc. ( Applied ), a Delaware corporation. Under the terms of the Purchase Agreement, we will divest and sell our software division, Brooks Software, to Applied for \$125 million in cash consideration. We will transfer to Applied substantially all of our assets primarily related to Brooks Software, including the stock of several subsidiaries engaged only in the business of Brooks Software, and Applied will assume certain liabilities related to Brooks Software. We are selling our software division in order to focus on our core semiconductor-related hardware businesses. We expect to recognize a gain on disposal of the software division.

Completion of the transaction is subject to several conditions, including clearance under applicable antitrust laws, and other customary closing conditions. We anticipate closing the transaction by the end of the second fiscal quarter of 2007.

Applied Materials purchases significant amounts of manufacturing equipment from us and is among our largest customers for such products.

## **Three Months Ended December 31, 2006, Compared to Three Months Ended December 31, 2005**

### **Revenues**

We reported revenues of \$191.4 million for the three months ended December 31, 2006, compared to \$108.5 million in the three months ended December 31, 2005, a 76.4% increase. The increase reflects additional revenues of approximately \$19.0 million and \$25.0 million related to the Helix and Synetics acquisitions respectively, along with higher revenues from legacy Brooks business of approximately \$39.0 million due to higher demand for semiconductor capital equipment primarily from large OEM equipment suppliers.

Product revenues increased \$75.5 million, or 89.0%, to \$160.3 million, in the three months ended December 31, 2006, from \$84.8 million in the three months ended December 31, 2005. The increase reflects additional revenues of approximately \$14.0 million and \$24.0 million related to the Helix and Synetics acquisitions respectively, along with higher revenues from legacy Brooks product of approximately \$37.0 million due to higher demand for semiconductor capital equipment.

Service revenues increased \$7.4 million, or 31.1%, to \$31.1 million in the three months ended December 31, 2006. The increase reflects additional revenues of approximately \$5.0 million and \$1.0 million related to the Helix and Synetics acquisitions respectively, along with higher revenues from legacy Brooks services of approximately \$2.0 million.

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Revenues outside the United States were \$76.4 million, or 39.9% of revenues, and \$46.9 million, or 43.2% of revenues, in the three months ended December 31, 2006 and 2005, respectively. We expect that foreign revenues will continue to account for a significant portion of total revenues. The current international component of revenues is not indicative of the future international component of revenues.

**Gross Margin**

Gross margin dollars increased to \$59.7 million for the three months ended December 31, 2006, or \$62.0 million net of \$2.3 million of completed technology amortization, compared to \$25.5 million for the three months ended December 31, 2005, or \$34.0 million net of a \$7.0 million charge to write-off approximately two-thirds of the step-up in inventory related to the Helix acquisition and \$1.5 million of completed technology amortization. Gross margin percentage increased to 31.2% for the three months ended December 31, 2006, compared to 23.5% for the three months ended December 31, 2005. Excluding the \$7.0 million inventory write-off taken in the first quarter of fiscal 2006 and the amortization of completed technology, the overall increase in gross margin of \$28.0 million reflects the additional gross margin from the Helix acquisition of approximately \$6.0 million, plus the additional gross margin from the Synetics acquisition of approximately \$4.0 million, along with the higher margin of approximately \$18.0 million associated with legacy Brooks business due primarily to higher revenues.

Gross margin on product revenues was \$51.9 million or 32.4% for the three months ended December 31, 2006, compared to \$15.6 million or 18.3% for the prior year. This increase reflects the additional gross margin from the Helix acquisition of approximately \$12.0 million which includes the impact of a \$7.0 million charge taken in the first quarter of fiscal year 2006 to write-off approximately two-thirds of the step-up in inventory related to the Helix acquisition, plus the additional gross margin from the Synetics acquisition of approximately \$4.0 million, along with the higher margin of approximately \$20.0 million associated with legacy Brooks business due primarily to higher revenues.

Gross margin on service revenues was \$7.8 million or 25.1% for the three months ended December 31, 2006, compared to \$9.9 million or 41.9% in the three months ended December 31, 2005. The decrease in gross margin dollars and percentage is primarily attributable to higher materials costs incurred on customer service, upgrade and repair programs as well as higher warranty-related spending.

**Research and Development**

Research and development expenses for the three months ended December 31, 2006, were \$13.1 million, an increase of \$3.9 million, compared to \$9.2 million in the three months ended December 31, 2005. Research and development expenses decreased as a percentage of revenues, to 6.8%, from 8.5% in the three months ended December 31, 2005. The increase in absolute spending is primarily attributable to the additional spending of \$1.0 million related to the Synetics acquisition, \$0.9 million related to the Helix acquisition, along with higher spending of approximately \$2.0 million associated with legacy Brooks products. The decrease as a percentage of revenues was primarily the result of our continued focus on controlling costs and refocusing our development efforts to be more efficient as well as higher revenue levels against which these costs are measured.

**Selling, General and Administrative**

Selling, general and administrative expenses were \$31.0 million for the three months ended December 31, 2006, an increase of \$5.4 million, compared to \$25.6 million in the three months ended December 31, 2005. Selling, general and administrative expenses decreased as a percentage of revenues, to 16.2% in the three months ended December 31, 2006, from 23.6% in the three months ended December 31, 2005. The increase in absolute spending is primarily attributable to the additional spending of approximately \$3.0 million related to the Helix acquisition, an additional \$1.9 million related to the Synetics acquisition, higher management incentive charges of \$2.1 million, offset by the elimination of redundant costs following the Helix acquisition. The decrease as a percentage of revenues reflects our efforts to eliminate redundant costs following the Helix acquisition and our continuing focus on controlling costs as well as higher revenue levels against which these costs are measured.

**Table of Contents****Restructuring Charges**

There were no restructuring-related charges to continuing operations incurred in the three months ended December 31, 2006. We recorded charges to continuing operations of \$0.9 million for the three month period ended December 31, 2005 for costs incurred related to workforce reductions.

**Interest Income and Expense**

Interest income decreased by \$1.3 million, to \$2.2 million, in the three months ended December 31, 2006, from \$3.5 million in the three months ended December 31, 2005, as a result of lower investment balances due to the repayment of the Convertible Subordinated Notes in the quarter ended September 30, 2006. Interest expense decreased by \$2.2 million, to \$0.1 million in the three months ended December 31, 2006, from \$2.3 million in the three months ended December 31, 2005. The expense incurred in the prior period related primarily to the 4.75% Convertible Subordinated Notes which were paid off in the quarter ended September 30, 2006.

**Equity in Earnings of Ulvac Cryogenics, Inc.**

We participate in a joint venture, ULVAC Cryogenics, Inc., or UCI, with ULVAC Corporation of Chigasaki, Japan, which was part of the acquired operations of Helix in October 2005. Income associated with our 50% interest in UCI was \$0.4 million and \$0.2 million in the three months ended December 31, 2006 and 2005, respectively.

**Other (Income) Expense**

We recorded other expense, net of \$0.5 million in the three months ended December 31, 2006, compared to other expense, net of \$0.4 million in the three months ended December 31, 2005. In the current quarter, foreign exchange losses of \$1.2 million were offset by the receipt of principal repayments on notes that had been previously written-off of \$0.7 million. In the three months ended December 31, 2005, an accrual of \$1.6 million related to a legal contingency was offset by the receipt of \$0.5 million of principal repayment on a note that had been previously written off, \$0.5 million of foreign exchange gains, and a \$0.2 million gain on the sale of an investment in a Taiwanese company.

**Income Tax Provision**

We recorded an income tax provision of \$0.6 million in the three months ended December 31, 2006 and an income tax provision of \$0.3 million in the three months ended December 31, 2005. The tax provision recorded for both periods was primarily due to alternative minimum taxes along with foreign income and withholding taxes. We continued to provide a full valuation allowance for our net deferred tax assets at December 31, 2006, as we believe it is more likely than not that the future tax benefits from accumulated net operating losses and deferred taxes will not be realized. We continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. However, it is possible that the more likely than not criterion could be met in fiscal 2007 or a future period, which could result in the reversal of a significant portion or all of the valuation allowance, which, at that time, would be recorded as a tax benefit in the consolidated statements of operations.

We are subject to income taxes in various jurisdictions. Significant judgment is required in determining the world-wide provision for income taxes. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that the tax reserves reflect the probable outcome of known contingencies. Tax reserves established include, but are not limited to, business combinations, transfer pricing, withholding taxes, and various state and foreign audit matters, some of which may be resolved in the near future resulting in an adjustment to the reserve.

**Discontinued Operations**

We recorded income from the operation of our discontinued software business of \$5.2 million for the three months ended December 31, 2006 compared to a loss of \$2.3 million associated with our discontinued software business offset by a gain of \$0.1 million from the operations of our discontinued SELS business for the three months ended December 31, 2005. The favorable change in the software business is primarily the result of higher margin of \$2.6 million on higher revenues of \$2.8 million, lower amortization of completed technology of \$0.5 million,

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reduced R&D and SG&A spending of \$1.7 million, and the recognition of a tax benefit resulting from the reversal of tax reserves due to an audit settlement of \$2.1 million.

**Liquidity and Capital Resources**

Our business is significantly dependent on capital expenditures by semiconductor manufacturers and OEMs that are, in turn, dependent on the current and anticipated market demand for semiconductors. Demand for semiconductors is cyclical. In response to this cyclicity, we have implemented cost reduction programs aimed at aligning our ongoing operating costs with our currently expected revenues over the near term. These cost management initiatives have included consolidating facilities, reductions to headcount, salary and wage reductions and reduced spending. The cyclical nature of the industry makes estimates of future revenues, results of revenues, results of operations and net cash flows inherently uncertain.

At December 31, 2006, we had cash, cash equivalents and marketable securities aggregating \$184.1 million. This amount was comprised of \$134.1 million of cash and cash equivalents, \$34.0 million of investments in short-term marketable securities and \$16.0 million of investments in long-term marketable securities. At September 30, 2006, we had cash, cash equivalents and marketable securities totaling \$191.4 million. This amount was comprised of \$115.8 million of cash and cash equivalents, \$68.3 million of investments in short-term marketable securities and \$7.3 million of investments in long-term marketable securities

Cash used in operations was \$3.5 million for the three months ended December 31, 2006, and was primarily attributable to our net working capital changes resulting in a decrease in cash of \$35.6 million. This change in working capital was primarily the result of increased accounts receivable balances of \$13.7 million. Other changes in working capital included decreases in accrued compensation and benefits of \$8.0 million primarily the result of payments associated with our management incentive plan of \$9.0 million, decreased accounts payable levels of \$4.2 million and an increased inventory balance of \$5.3 million. The change in working capital was partially offset by net income of \$22.1 million, adjusted for non-cash depreciation and amortization of \$8.3 million and compensation expense related to common stock and options of \$2.1 million.

Cash provided by investing activities was \$20.9 million for the three months ended December 31, 2006, and is principally comprised of net sales/maturities of marketable securities of \$25.0 million which was partially offset by \$4.0 million used for capital additions.

Cash provided by financing activities was \$0.4 million for the three months ended December 31, 2006.

While we have no significant capital commitments, as we expand our product offerings, we anticipate that we will continue to make capital expenditures to support our business and improve our computer systems infrastructure. We may also use our resources to acquire companies, technologies or products that complement our business.

At December 31, 2006, we had approximately \$0.7 million of an uncommitted demand promissory note facility still in use, all of it for letters of credit.

We believe that our existing resources will be adequate to fund our currently planned working capital and capital expenditure requirements for both the short and long-term. In addition, we expect to receive \$125.0 million from the sale of the software division during the second fiscal quarter of 2007. However, the cyclical nature of the semiconductor industry makes it difficult for us to predict future liquidity requirements with certainty. We may be unable to obtain any required additional financing on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our expansion, successfully develop or enhance products, respond to competitive pressure or take advantage of acquisition opportunities, any of which could have a material adverse effect on our business. In addition, we are subject to litigation related to our stock-based compensation restatement which could have an adverse affect on our existing resources.

**Recently Enacted Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20,

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Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements ( SFAS 154 ). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. On October 1, 2006, we adopted SFAS 154 and did not realize a material impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance will become effective as of the beginning of our fiscal year beginning after December 15, 2006. We are currently evaluating the potential impact of FIN No. 48 on our financial position and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ) expressing the Staff's views regarding the process of quantifying financial statement misstatements. There have been two widely-recognized methods for quantifying the effects of financial statement errors: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of our financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it essentially requires quantification of errors under both the iron-curtain and the roll-over methods. The provisions of SAB 108 should be applied to annual financial statements covering the first fiscal year ending after November 15, 2006. We are currently evaluating the provisions of SAB 108.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ) and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier adoption permitted. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with limited exceptions. We are currently evaluating the provisions of SFAS 157.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). SFAS 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to:

a. Recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation.





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b. Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions, or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of SFAS No. 87 and SFAS No. 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.

c. Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions).

d. Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. Retrospective application is not permitted. We are currently evaluating the provisions of SFAS 158.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Our primary market risk exposures are to changes in foreign currency exchange rates. A portion of our business is conducted outside the United States through foreign subsidiaries which maintain accounting records in their local currencies. Consequently, some of our assets and liabilities are denominated in currencies other than the United States dollar. Fluctuations in foreign currency exchange rates affect the carrying amount of these assets and liabilities and our operating results. We do not enter into market risk sensitive instruments to hedge these exposures.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this Report, and pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in accordance with the time specified by the SEC's rules and forms.

*Change in Internal Controls.* There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

*Other Commercial Litigation Matters*

In January 2006 a ruling was issued against us by a Massachusetts state court in a commercial litigation matter involving us and BlueShift Technologies, Inc. Awards of damages and costs were assessed against us in January and April 2006 in the amount of approximately \$1.6 million, which had been accrued for at December 31, 2005. We have filed a notice of appeal in the case with the Massachusetts Appeals Court and that appeal is now pending.

*Regulatory Proceedings*

On May 12, 2006, we announced that the Company had received notice that the Boston Office of the United States Securities and Exchange Commission (the SEC) was conducting an informal inquiry concerning stock option grant practices to determine whether violations of the securities laws had occurred. On June 2, 2006, the SEC issued a voluntary request for information to us in connection with an informal inquiry by that office

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regarding a loan we previously reported had been made to former Chairman and CEO Robert Therrien in connection with the exercise by him of stock options in 1999. On June 23, 2006, we were informed that the SEC had opened a formal investigation into this matter and on the general topic of the timing of stock option grants. On June 28, 2006, the SEC issued subpoenas to the Company and to the Special Committee of the Board of Directors, which had previously been formed on March 8, 2006, requesting documents related to the Company's stock option grant practices and to the loan to Mr. Therrien.

On May 19, 2006, we received a grand jury subpoena from the United States Attorney (the DOJ) for the Eastern District of New York requesting documents relating to stock option grants. Responsibility for the DOJ's investigation was subsequently assumed by the United States Attorney for the District of Massachusetts. On June 22, 2006 the United States Attorney's Office for the District of Massachusetts issued a grand jury subpoena to us in connection with an investigation by that office into the timing of stock option grants by us and the loan to Mr. Therrien mentioned above.

The Company is cooperating fully with the investigations being conducted by the SEC and the DOJ.

*Private Litigation*

On May 22, 2006, a derivative action was filed nominally on our behalf in the Superior Court for Middlesex County, Massachusetts, captioned as Mollie Gedell, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. A. Clinton Allen, *et al.* The Defendants named in the complaint are: A. Clinton Allen, Director of the Company; Roger D. Emerick, former Director of the Company; Edward C. Grady, Director, President and CEO of the Company; Amin J. Khoury, former Director of the Company; Joseph R. Martin, Director of the Company; John K. McGillicuddy, Director of the Company; and Robert J. Therrien, former Director, President and CEO of the Company.

On May 26, 2006, a derivative action was filed in the Superior Court for Middlesex County, Massachusetts nominally on our behalf, captioned as Ralph Gorgone, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. Edward C. Grady, *et al.* The Defendants named in the complaint are: Mr. Grady; Mr. Allen; Mr. Emerick; Mr. Khoury; Robert J. Lepofsky, Director of the Company; Mr. Martin; Mr. McGillicuddy; Krishna G. Palepu, Director of the Company; Alfred Woollacott, III, Director of the Company; Mark S. Wrighton, Director of the Company; and Marvin Schorr, Director Emeritus of the Company.

On August 4, 2006 the Superior Court for Middlesex County, Massachusetts, entered an order consolidating the above state derivative actions under docket number 06-1808 and the caption *In re Brooks Automation, Inc. Derivative Litigation*. On September 5, 2006, the Plaintiffs filed a Consolidated Shareholder Derivative Complaint; the Defendants named therein are: Mr. Allen, Mr. Martin, Mr. Grady, Mr. McGillicuddy, Mr. Therrien, Mr. Emerick, and Mr. Khoury; Robert W. Woodbury, Jr., the Company's Chief Financial Officer; Joseph Bellini, President and Chief Operating Officer of the Company's Enterprise Software Group, and Thomas S. Grilk, Secretary and General Counsel of the Company, current Officers of the Company; current employee Michael W. Pippins, Stanley D. Piekos and Ellen B. Richstone, the Company's former Chief Financial Officers; and David R. Beaulieu, Jeffrey A. Cassis, Santo DiNaro, Peter Frasso, Robert A. McEachern, Dr. Charles M. McKenna, James A. Pelusi, Michael W. Pippins and Michael F. Werner, former Officers and employees of the Company. The Consolidated Shareholder Derivative Complaint alleges that certain current and former directors and officers breached fiduciary duties owed to Brooks by backdating stock option grants, issuing inaccurate financial results and false or misleading public filings, and that Messrs. Therrien, Emerick and Khoury breached their fiduciary duties, and Mr. Therrien was unjustly enriched, as a result of the loan to and stock option exercise by Mr. Therrien mentioned above, and seeks, on our behalf, damages for breaches of fiduciary duty and unjust enrichment, disgorgement to the Company of all profits from allegedly backdated stock option grants, equitable relief, and Plaintiffs' costs and disbursements, including attorneys' fees, accountants' and experts' fees, costs, and expenses. The Defendants served motions to dismiss and, in response, Plaintiffs have moved for leave to amend their Complaint. The Proposed Amended Complaint makes allegations substantially similar to those in the Consolidated Shareholder Derivative Complaint, and adds as Defendants Richard C. Small, Senior Vice President and Corporate Controller of the Company, and Mr. Woolacott, Mr. Wrighton, Mr. Lepofsky, and Mr. Palepu, Directors of the Company. If the Court grants Plaintiffs leave to file an amended complaint, Defendants, including the Company, anticipate filing motions to dismiss directed at the amended

complaint.

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On May 30, 2006, a derivative action was filed in the United States District Court for the District of Massachusetts, captioned as Mark Collins, Derivatively on Behalf of Nominal Defendant Brooks Automation, Inc. v. Robert J. Therrien, *et al.* The defendants in the action are: Mr. Therrien; Mr. Allen; Mr. Emerick; Mr. Grady; Mr. Khoury; Mr. Martin; and Mr. McGillicuddy.

On June 7, 2006, a derivative action was filed in the United States District Court for the District of Massachusetts, captioned as City of Pontiac General Employees Retirement System, Derivatively on Behalf of Brooks Automation, Inc. v. Robert J. Therrien, *et al.* The Defendants in this action are: Mr. Therrien; Mr. Emerick; Mr. Khoury; Mr. Allen; Mr. Grady; Mr. Lepofsky; Mr. Martin; Mr. McGillicuddy; Mr. Palepu; Mr. Woollacott, III; Mr. Wrighton; and Mr. Schorr.

The District Court issued an Order consolidating the above federal derivative actions on August 15, 2006, and a Consolidated Verified Shareholder Derivative Complaint was filed on October 6, 2006; the Defendants named therein are: Mr. Allen, Mr. Grady, Mr. Lepofsky, Mr. Martin, Mr. McGillicuddy, Mr. Palepu, Mr. Schorr, Mr. Woollacott, Mr. Wrighton, Mr. Woodbury, Mr. Therrien, Mr. Emerick, Mr. Khoury, and Mr. Werner. The Consolidated Verified Shareholder Derivative Complaint alleges violations of Section 10(b) and Rule 10b-5 of the Exchange act; Section 14(a) of the Exchange Act; Section 20(a) of the Exchange Act; breach of fiduciary duty; corporate waste; and unjust enrichment, and seeks, on behalf of Brooks, damages, extraordinary equitable relief including disgorgement and a constructive trust for improvidently granted stock options or proceeds from alleged insider trading by certain defendants, Plaintiffs costs and disbursements including attorneys fees, accountants and experts fees, costs and expenses. On December 27, 2006, the Court granted Defendants motion to stay the federal derivative actions in favor of the first-filed state derivative action described above.

On June 19, 2006, a putative class action was filed in the United States District Court, District of Massachusetts, captioned as Charles E. G. Leech Sr. v. Brooks Automation, Inc., *et al.* The defendants in this action are: the Company; Mr. Therrien; Ellen Richstone, the Company's former Chief Financial Officer; Mr. Emerick; Mr. Khoury; Robert W. Woodbury, Jr., the Company's Chief Financial Officer; and Mr. Grady. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 against us and the individual defendants; Section 20(a) of the Exchange Act against the individual defendants; Section 11 of the Securities Act against us and Messrs. Grady, Woodbury, Emerick, Khoury and Therrien; Section 12 of the Securities Act against us and Messrs. Grady, Woodbury, Emerick, Khoury and Therrien; and Section 15 of the Securities Act against Messrs. Grady, Woodbury, Emerick, Khoury and Therrien. The complaint seeks, *inter alia*, damages, including interest, and plaintiff's costs.

On July 19, 2006, a putative class action was filed in the United States District Court for the District of Massachusetts, captioned as *James R. Shaw v. Brooks Automation, Inc.* et al., No. 06-11239-RWZ. The Defendants in the case are the Company, Mr. Therrien, Ms Richstone, Mr. Emerick, Mr. Khoury, Mr. Woodbury, and Mr. Grady. As of this date, the Company has not been served with the complaint. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 against all defendants and violations of Section 20(a) of the Exchange Act against all individual defendants. The complaint seeks, *inter alia*, damages, including interest, and plaintiff's costs. On December 13, 2006, the Court issued an order consolidating the *Shaw* action with the *Leech* action described above and appointing a lead plaintiff and lead counsel. The lead plaintiff has until February 12, 2007 to file a Consolidated Amended Complaint.

On August 22, 2006, an action captioned as *Mark Levy v. Robert J. Therrien and Brooks Automation, Inc.*, was filed in the United States District Court for the District of Delaware, seeking recovery, on behalf of the Company, from Mr. Therrien under Section 16(b) of the Securities Exchange Act of 1934 for alleged short-swing profits earned by Mr. Therrien due the loan and stock option exercise in November 1999 referenced above, and a sale by Mr. Therrien of Brooks stock in March 2000. The Complaint seeks disgorgement of all profits earned by Mr. Therrien on the transactions, attorneys fees and other expenses. Defendants have filed motions to dismiss.

We are aware of additional proposed class actions, posted on the websites of various law firms. We are not yet aware of the filing of any such actions and have not been served with a complaint or any other process in any of these matters.

*Matter to which the Company is Not a Party*  
Jenoptik-Asyst Litigation



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We acquired certain assets, including a transport system known as IridNet, from the Infab division of Jenoptik AG on September 30, 1999. Asyst Technologies, Inc. had previously filed suit against Jenoptik AG and other defendants, or collectively, the defendants, in the Northern District of California charging that products of the defendants, including IridNet, infringe Asyst's U.S. Patent Nos. 4,974,166, or the 166 patent, and 5,097,421, or the 421 patent. Asyst later withdrew its claims related to the 166 patent from the case. Summary judgment of noninfringement was granted in that case by the District Court and judgment was issued in favor of Jenoptik on the ground that the product at issue did not infringe the asserted claims of the 421 patent. However, Asyst appealed the adverse judgment to the Court of Appeals for the Federal Circuit. In its decision on that appeal the Court of Appeals affirmed a portion of the District Court's grant of summary judgment in favor of Jenoptik but also reversed another portion of that judgment and reinstated one of Asyst's other claims. On the basis of that order and the claim construction guidance furnished by the Court of Appeals, the District Court issued an order granting summary judgment in favor of Asyst on one of its infringement claims against Jenoptik.

We had received notice that Asyst might amend its complaint in this Jenoptik litigation to name us as an additional defendant, but no such action was ever taken. Based on our investigation of Asyst's allegations, we do not believe we are infringing any claims of Asyst's patents. Asyst may decide to seek to prohibit us from developing, marketing and using the IridNet product without a license. We cannot guarantee that a license would be available to us on reasonable terms, if at all. In any case, we could face litigation with Asyst. Jenoptik has agreed to indemnify us for any loss we may incur in this action.

**Item 1A. Risk Factors**

The following risk factors are a summary of the risk factors disclosed in our Annual report on Form 10-K for the fiscal year ended September 30, 2006.

**Factors That May Affect Future Results**

You should carefully consider the risks described below and the other information in this report before deciding to invest in shares of our common stock. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer. In that event, the market price of our common stock could decline and you could lose all or part of your investment.

**Risks Relating to Our Industry**

Due in part to the cyclical nature of the semiconductor manufacturing industry and related industries, we have incurred substantial operating losses in past years and may have future losses.

We face substantial competition which may lead to price pressure and otherwise adversely affect our sales.

**Risks Relating to Brooks**

Our operating results could fluctuate significantly, which could negatively impact our business.

Delays and technical difficulties in our products and operations may result in lost revenue, lost profit, delayed or limited market acceptance or product liability claims.

If we do not continue to introduce new products and services that reflect advances in technology in a timely and effective manner, our products and services will become obsolete and our operating results will suffer.

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The global nature of our business exposes us to multiple risks. As we increase the number of manufacturing facilities that we operate in other countries, there is an increased risk that we will experience delays in production, which could in turn have an adverse impact on the timing of deliveries to customers and on the ability of customers to meet their own delivery requirements.

Our business could be materially harmed if we fail to adequately integrate the operations of the businesses that we have acquired or may acquire.

The delay or cancellation of the planned divestiture of the Brooks Software Division due to objections raised by competition law authorities such as the U.S. Department of Justice could adversely affect our business or our financial results.

Failure to retain key personnel could impair our ability to execute our business strategy.

We face risks related to the restatement of our financial statements and the pending SEC and US Attorney investigations regarding our past practices with respect to equity incentives.

We face litigation risks relating to our past practices with respect to equity incentives that could have a material adverse effect on the Company.

**Risks Relating to Our Customers**

Because we rely on a limited number of customers for a large portion of our revenues, the loss of one or more of these customers could materially harm our business.

Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenues related to those products.

Customers generally do not make long term commitments to purchase our products and our customers may cease purchasing our products at any time.

**Other Risks**

We may be subject to claims of infringement of third-party intellectual property rights, or demands that we license third-party technology, which could result in significant expense and prevent us from using our technology.

**Jenoptik-Asyst Litigation**

We acquired certain assets, including a transport system known as IridNet, from the Infab division of Jenoptik AG on September 30, 1999. Asyst Technologies, Inc. had previously filed suit against Jenoptik AG and other defendants, or collectively, the defendants, in the Northern District of California charging that products of the defendants, including IridNet, infringe Asyst's U.S. Patent Nos. 4,974,166, or the 166 patent, and 5,097,421, or the 421 patent. Asyst later withdrew its claims related to the 166 patent from the case. Summary judgment of noninfringement was granted in that case by the District Court and judgment was issued in favor of Jenoptik on the ground that the product at issue did not infringe the asserted claims of the 421 patent. However, Asyst appealed the adverse judgment to the Court of Appeals for the Federal Circuit. In its decision on that appeal the Court of Appeals affirmed a portion of the District Court's grant of summary judgment in favor of Jenoptik but also reversed another portion of that judgment and reinstated one of Asyst's other claims. On the basis of that order and the claim construction guidance furnished by the Court of Appeals, the District Court issued an order granting summary judgment in favor of Asyst on one of its infringement claims against Jenoptik.

We had received notice that Asyst might amend its complaint in this Jenoptik litigation to name Brooks as an additional defendant, but no such action was ever taken. Based on our investigation of



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Asyst's allegations, we do not believe we are infringing any claims of Asyst's patents. Asyst may decide to seek to prohibit us from developing, marketing and using the IridNet product without a license. We cannot guarantee that a license would be available to us on reasonable terms, if at all. In any case, we could face litigation with Asyst.

Jenoptik has agreed to indemnify us for any loss we may incur in this action.

Our failure to protect our intellectual property could adversely affect our future operations.

If the site of the majority of our manufacturing operations were to experience a significant disruption in operations, our business could be materially harmed.

Our business could be materially harmed if one or more key suppliers fail to deliver key components.

We are exposed to potential risks and we will continue to incur increased costs as a result of the internal control testing and evaluation process mandated by Section 404 of the Sarbanes-Oxley Act of 2002.

Our stock price is volatile.

Provisions in our organizational documents and contracts may make it difficult for someone to acquire control of us.

We will incur significant stock-based compensation charges related to certain stock options and restricted stock in future periods.

**Table of Contents****Item 4. Submission of Matters to a Vote of Security Holders**

The Annual Meeting of the stockholders of the Company was held on February 5, 2007. At this meeting, the stockholders were asked to and did vote on the following proposals:

1. To elect eight directors to serve for the ensuing year and until their successors are duly elected.

A. Clinton Allen	
Votes For:	61,100,827
Withheld:	10,135,561
Edward C. Grady	
Votes For:	70,021,695
Withheld:	1,214,693
Robert J. Lepofsky	
Votes For:	49,167,851
Withheld:	22,068,537
Joseph R. Martin	
Votes For:	64,346,466
Withheld:	6,889,922
John K. McGillicuddy	
Votes For:	68,337,213
Withheld:	2,899,175
Krishna G. Palepu	
Votes For:	67,096,141
Withheld;	4,140,247
Alfred Woollacott, III	
Votes For:	69,968,111
Withheld:	1,268,277
Mark S. Wrighton	
Votes For:	66,927,721
Withheld:	4,308,667
2. To ratify the selection of PricewaterhouseCoopers LLP as our independent registered accounting firm for the 2007 fiscal year.	
Votes For:	65,723,760
Votes Against:	5,465,575
Abstentions:	47,053

**Item 6. Exhibit**

The following exhibits are included herein:

Exhibit No.	Description
2.1	Asset Purchase Agreement between Applied Materials, Inc. and Brooks Automation, Inc. dated November 3, 2006 (incorporated by reference to Exhibit 2.1 of Brooks' current report on Form 8-K, filed on November 9, 2006).
3.1	Certificate of Incorporation of Brooks (incorporated herein by reference to Exhibit 3.1 of Brooks' registration statement on Form S-4, filed on August 30, 2005, as amended September 22, 2005).
3.2	Certificate of Designations of Series A Junior Participating Preferred Stock of Brooks (incorporated herein by reference to Exhibit 3.03 of Brooks' registration statement on Form S-3, filed on August 27, 1997).

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- 3.3 Certificate of Amendment of Certificate of Incorporation of Brooks (incorporated herein by reference to Exhibit 3.3 of Brooks registration statement on Form S-4, filed on August 30, 2005, as amended September 22, 2005).
- 3.4 Certificate of Amendment of Certificate of Incorporation of Brooks (incorporated herein by reference to Exhibit 3.4 of Brooks registration statement on Form S-4, filed on August 30, 2005).
- 3.5 Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Brooks (incorporated herein by reference to Exhibit 3.5 of Brooks registration statement on Form S-4, filed

**Table of Contents**

Exhibit No.	Description
	on August 30, 2005).
3.6	Certificate of Ownership and Merger of PRI Automation, Inc. into Brooks (incorporated herein by reference to Exhibit 3.6 of Brooks registration statement on Form S-4, filed on August 30, 2005).
3.7	Certificate of Designations, Preferences, Rights and Limitations of Special Voting Preferred Stock of Brooks (incorporated by reference to Exhibit 4.13 of Brooks registration statement on Form S-3 (Registration No. 333-87194), filed on April 29, 2002, as amended May 13, 2002).
3.8	Certificate of Change of Registered Agent and Registered Office of Brooks (incorporated herein by reference to Exhibit 3.8 of Brooks registration statement on Form S-4, filed on August 30, 2005).
3.9	Certificate of Amendment of Certificate of Incorporation of Brooks (incorporated by reference to Exhibit 3.01 of Brooks quarterly report for the quarterly period ended March 31, 2003, filed on May 13, 2003).
3.10	Certificate of Amendment of Certificate of Incorporation of Brooks (incorporated herein by reference to Exhibit 3.1 of Brooks current report on Form 8-K, filed on October 26, 2005).
3.11	Certificate of Elimination of Special Voting Preferred Stock (incorporated herein by reference to Exhibit 3.2 of Brooks current report on Form 8-K, filed on October 26, 2005).
3.12	Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock (incorporated herein by reference to Exhibit 3.3 of Brooks current report on Form 8-K, filed on October 26, 2005).
3.13	Brooks Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.4 of Brooks current report on Form 8-K, filed on October 26, 2005).
10.1	Second Amended and Restated Employment Agreement by and between Brooks Automation, Inc. and Edward C. Grady, as of October 18, 2006 (incorporated herein by reference to Exhibit 10.1 of Brooks current report on Form 8-K, filed on October 20, 2006).
31.01	Rule 13a-14(a), 15d-14(a) Certification
31.02	Rule 13a-14(a), 15d-14(a) Certification
32	Section 1350 Certifications

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**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.

BROOKS AUTOMATION, INC.

DATE: February 7, 2007

/s/ EDWARD C. GRADY  
Edward C. Grady  
Director, President and Chief Executive  
Officer (Principal Executive Officer)

DATE: February 7, 2007

/s/ ROBERT W. WOODBURY, JR.  
Robert W. Woodbury, Jr.  
Senior Vice President and Chief Financial  
Officer (Principal Accounting Officer)  
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