

BROOKS AUTOMATION INC

Form 10-K

December 14, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For fiscal year ended September 30, 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**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**15 Elizabeth Drive  
Chelmsford, Massachusetts**

*(Address of Principal Executive Offices)*

**04-3040660**

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

**01824**

*(Zip Code)*

**978-262-2400**

*(Registrant's Telephone Number, Including Area Code)*

**Securities registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$0.01 par value  
Rights to Purchase Common Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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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 if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the registrant's Common Stock, \$0.01 par value, held by nonaffiliates of the registrant as of March 31, 2006, was approximately \$1,061,248,600 based on the closing price per share of \$14.24 on that date on the Nasdaq Stock Market. As of March 31, 2006, 75,365,813 shares of the registrant's Common Stock, \$0.01 par value, were outstanding. As of November 30, 2006, 75,563,054 shares of the registrant's Common Stock, \$0.01, par value, were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement involving the election of directors, which is expected to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference in Part III of this Report.

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**PART I**

**Item 1. *Business***

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 hardware, software 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.

We were founded in 1978 to develop and market automated substrate handling equipment for semiconductor manufacturing and became a publicly traded company in February 1995. We have grown significantly from being a niche supplier of wafer-handling robot modules for vacuum-based processes, to become the largest merchant supplier of hardware and software automation products for the semiconductor industry in consecutive calendar years from 2001 through 2005, and the world's thirteenth largest semiconductor front-end capital equipment company in 2005, according to the independent market research firm Gartner Dataquest.

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.

The demand for semiconductors is cyclical and has historically experienced periodic expansions and contractions, which are called upturns and downturns. The semiconductor industry experienced a prolonged downturn from fiscal 2001 to the end of fiscal 2003. The industry economics improved significantly in fiscal 2004 and we were able to return to profitability in fiscal 2004, benefiting from improved market demand and from some of the cost reduction initiatives that we implemented during the downturn. The industry conditions weakened again in our fiscal 2005 leading to a decline in revenues and profitability for Brooks during 2005, but rebounded in 2006 to help drive growth and profitability for Brooks in fiscal 2006. We expect industry conditions to continue to fluctuate unpredictably.

On October 26, 2005, we 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. We believe that the acquisition of Helix enables us to better serve our current market, increase our addressable market, reduce the volatility that both businesses have historically faced and position us to enhance our 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. The Helix business operates in our hardware segment. 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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On May 8, 2006, we entered into an Agreement and Plan of Merger (the **Merger Agreement**) with Synetics Solutions Inc. (**Synetics**). We completed our 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.

Also on May 8, 2006, we entered 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. YBA began operations on September 21, 2006.

On November 3, 2006, our 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 and to reclassify this division as discontinued operations in fiscal 2007.

Completion of the transaction is subject to several conditions, including expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and clearance under any applicable foreign antitrust laws, and other customary closing conditions. We expect to close the transaction during the second fiscal quarter of 2007.

## **Industry Background**

In recent years the semiconductor industry has experienced significant growth in both the volume and complexity of integrated circuit devices manufactured. This growth has been driven by the increased demand for electronic products that require semiconductors such as computers, telecommunications equipment, consumer electronics, data storage media and wireless communications devices.

To meet these demands, semiconductor manufacturers have sought volume and efficiency improvements through increased equipment utilization, higher manufacturing yields, capacity expansion of existing facilities and the construction of new facilities. Automation and vacuum-based processes perform critical functions in the manufacturing of semiconductors. The majority of modern semiconductor fabrication facilities, or fabs, manufacture semiconductor chips on circular silicon wafers with diameters of 150mm, or 6 inches, and 200mm, or 8 inches. More recently the industry has begun to adopt wafers with diameter sizes of 300mm, or 12 inches. The wafers are typically processed in production lots of 25 wafers, with 150mm and 200mm wafers contained in either an open cassette or a fully enclosed pod called SMIF, or standard mechanical interface. Production lots for 300mm manufacturing typically consist of 25 wafers contained in a FOUP, or front-opening unified pod. Both SMIF and FOUP technologies isolate the wafers from their surroundings by creating an ultra-clean mini-environment within the pod. One wafer may yield hundreds of chips, and each chip may contain tens or hundreds of millions of microscopic transistors in leading-edge devices.



The production of advanced semiconductor chips is an extremely complex and logistically challenging manufacturing activity. To create the millions of microscopic transistors and connect them together horizontally and in vertical layers into a functioning integrated circuit, or IC chip, the silicon wafers must go through hundreds of process steps that require complex processing equipment, or tools, to create the integrated circuits. A large production fab may have more than 70 different types of process and metrology tools, totaling as many as 500 tools or more. Up to 40 percent of these tools perform processes in a vacuum, such as removing, depositing or measuring material on wafer surfaces. Wafers can go through as many as 400 different process steps before completion. These

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steps, which comprise the initial fabrication of the integrated circuit and are referred to in the industry as front-end processes, are repeated many times to create the desired pattern on the silicon wafer. As the complexity of semiconductors continues to increase, the number of process steps also increases, resulting in a greater need for automation due to more handling and tracking requirements, and higher number of tools. Upon completing the front-end processing, the wafer is cut into individual devices, or chips, which then undergo additional assembly and testing steps before being packaged into a device that is used in an electronic product.

Vacuum-based processes are fundamental steps integral to chip manufacturing. High vacuum pumps are required in certain process steps to remove all potentially contaminating gases and impurities from the processing environment. In order to achieve optimal production yields, semiconductor manufacturers must also ensure that each process operates at carefully controlled pressure levels. Impurities or incorrect pressure levels can lower production yields, thereby significantly increasing the cost per usable semiconductor chip produced. Some key vacuum processes include dry etching and dry stripping; chemical vapor deposition, or CVD; physical vapor deposition, or PVD; and ion implantation.

During manufacturing, the wafers need to be physically transported between different process tools, repeatedly identified, tracked, loaded into the equipment and processed, unloaded, verified and inspected, and dispatched to the next process step or storage area. All these actions can be automated. Automation enables the right material to be delivered at the right time to the right equipment with the right process recipe. Similarly, non-production wafers and durable goods, such as wafer carriers and photolithography masks or reticles used in production, must also be handled, tracked and managed. Consequently, the automation systems physically touch and handle nearly every wafer in the fab, while the software systems manage the tracking and recording of data for virtually every manufacturing lot, piece of equipment and resource in the fab.

The capital expenditure by a semiconductor company to create a modern 200mm fab can be as much as \$2 billion while the cost for a 300mm fab can exceed \$3 billion. While most 200mm fabs were only partially automated, virtually all 300mm production fabs are fully automated due to the heavier weight and value of a production lot. The investment in automation hardware, software and services has grown from approximately \$50 million in a 200mm fab to \$180 million in a 300mm fab. Typically 75 to 80 percent of the capital investment for a fab is for manufacturing equipment, while the remainder is dedicated to the land, the physical building, the clean room production floor and automation, network and facilities infrastructure. The served available market for semiconductor automation approximated \$1.8 billion in 2005, according to Dataquest. We believe we are the only company with a portfolio of hardware and software products and system integration services that can address the majority of the automation needs for semiconductor manufacturing.

Today, almost every aspect of processing includes automation, from material handling, tracking work-in-process, process control and scheduling. Factory and equipment automation directly impact factory performance. Factory performance, in turn, drives semiconductor manufacturers' ability to:

- reduce manufacturing costs;
- reduce cycle time, making the throughput more predictable;
- deliver products to market first when product profitability is greatest; and
- reduce defects and improve yield.

The Company has two reportable segments: hardware and software. In the fourth quarter of fiscal year 2005, the Company's equipment automation and factory automation segments were combined into the hardware segment, which

reflects how management now evaluates its business. The hardware segment also includes the acquired operations of Helix from the date of acquisition. Also included in this segment are the acquired operations of Synetics Solutions from the date of acquisition. Prior year amounts have been reclassified to conform to the current year.

The hardware segment provides a wide range of wafer handling products, vacuum subsystems and wafer transport platforms for use within the semiconductor process and metrology equipment. Within the hardware segment, there are four businesses consisting of automation hardware products, vacuum products and subsystems, customer-designed automation and the global customer service organization. The automation hardware products,

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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. Another line of business includes the vacuum products and subsystems acquired from Helix that 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 to build customer-designed automation systems, or contract automation systems, in a program designed to help customers outsource their automation. This assembly and manufacturing capability was a core competency of Syntetics Solutions, and these offerings have been combined under the line of business managed by the former Syntetics enterprise. 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.

The software segment addresses the need for production management systems driven by the extensive tracking and tracing requirements of the semiconductor industry. At the core of these production systems is the manufacturing execution system ( MES ) that is primarily responsible for tracking the movement of production wafers in a fab, and managing the data and actions for every wafer, equipment, operator and other resources in the fab. These mission-critical systems provide real time information primarily to production operators, supervisors and fab managers. We provide other important software applications to meet the critical requirements of the fab, such as real time dispatching and scheduling, equipment communications, advanced process control, material control for the automated material handling systems, or AMHS, activity execution and control, automated maintenance management of equipment, and other applications. Customers often purchase more than one of these software products from Brooks for a single fab, often driving the need for consulting and integration services. Our software products enable semiconductor manufacturers to increase their return on investment by maximizing production efficiency, and may be sold as part of an integrated solution or on a stand-alone basis. These software products and services are also used in many similar manufacturing industries as semiconductor, including flat panel display, data storage, and electronic assembly.

## ***Hardware***

Modern semiconductor process tools demand fast, error-free handling of the silicon wafers on which the integrated circuits are produced. In the late 1980 s and early 1990 s, many processes done in vacuum, such as CVD, PVD, dry etching and other processes, changed from batch processing to single wafer processing, driving the need for equipment that could process individual wafers simultaneously in multiple chambers. The single wafer tool configuration is often referred to as a cluster tool because of the typically radial layout, or cluster, of process chambers surrounding one or more central wafer handling robot. The transition to cluster tools greatly increased the demands on the automation system, forcing it to become as much as four to eight times more reliable than previous generations. The result was a market need for highly reliable and fast vacuum robots, as well as vacuum cluster tool platforms, both of which were the genesis of our business model.

Vacuum cluster tools consist of three primary sections: the equipment front-end module or EFEM, the cluster tool platform, and the process modules or chambers that are attached to the tool platform. An intermediate chamber, called a load-lock, separates the vacuum environment used in processing from the EFEM, which operates at standard atmosphere. A vacuum robot performs the task of transferring wafers from the load-lock to the process chambers that are mounted on the cluster tool platform. Wafers are placed in the load-lock by atmospheric robots that are housed in the EFEM. Vacuum tool automation includes load-locks, robots and other modules as well as the cluster tool platform. Brooks vacuum subsystems, acquired in the Helix transaction, create and manage the vacuum environment needed for several key process steps within semiconductor manufacturing, including ion implant, PVD and metrology.

The introduction and adoption of new materials and technology in semiconductor processing drove the emergence of important non-vacuum processes such as chemical mechanical planarization, or CMP, and electro-chemical deposition, or ECD, as well as increased dependence on other atmospheric processes such as metrology,

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all requiring automation. The growth in atmospheric tool automation has been further driven by the transition to 300mm technology and smaller feature sizes on ICs.

The front end of most 300mm and 200mm process equipment require an atmospheric system called an EFEM. EFEMs have modules called loadports on which wafer carriers are placed. Loadports have mechanisms that open the door or lid on the carriers so that the atmospheric robots can gain access to the wafers in the carriers. The individual atmospheric modules can be sold separately or as an integrated atmospheric system which includes the loadports, the atmospheric robots, and other necessary modules such as aligners, fan filter units and control software.

Many modern fabs are laid out in a series of processing rooms or bays that contain similar equipment. Process engineers recognized early in the history of semiconductor manufacturing that human handling of wafer carriers or wafers was a significant source of defects and errors. Automating the transport and handling of wafers to reduce or eliminate human handling created a market for factory automation. For 200mm fabs, AMHS was widely adopted for inter-bay transport only. AMHS consists of rails that are attached to the ceilings in the main aisles between bays on which cars transport the wafer carriers to a stocker at the head of a bay. These stockers automated the storage and retrieval of the carriers. Virtually all the movement of materials within a bay, or intra-bay transport, is done manually in 200mm fabs – operators carry the cassette or SMIF pod from the stocker to a process tool. As wafer sizes have become larger, carriers have become heavier and the value per wafer has increased significantly, resulting in the need for intra-bay automation systems for transporting wafers directly to and from a tool or stocker. These fully automated systems have become the standard method of transport for 300mm manufacturing. Having the capability of tool-to-tool or tool-to-stocker delivery versus the stocker-to-stocker approach used in 200mm manufacturing eliminates the manual handling of carriers by operators.

The evolution of the wafer carrier technology enabled semiconductor manufacturers to reduce both fab construction costs and production defects. Historically, wafer processing has been performed in clean rooms in order to reduce or eliminate particulates in the atmosphere that could create defects on wafers during processing. As the feature sizes on an integrated circuit became exponentially smaller, the need for cleaner air became more critical, and more expensive. In the late 1990 s the semiconductor industry adopted SMIF technology to protect and isolate wafers from the environment. The air in a SMIF pod is 1,000 times cleaner than a typical surgical operating room; it essentially has its own ultra-pure mini-environment. The SMIF technology gained acceptance in many modern 200mm fabs, although open cassettes are still used widely. In the transition to 300mm wafer sizes, the industry adopted the FOUP technology as its new standard. While SMIF was essentially an after-market modification to 200mm equipment, virtually all 300mm tools since the time of their original design have integrated the FOUP technology. Automation enabled the transition from open cassette carriers to mini-environment pods by providing the loadport modules and robotics to transfer the wafers into and out of process tools as well as the means to track and identify the wafers. As a result, the need for automation has increased for both 300mm and 200mm SMIF fabs.

## ***Software***

We are a leading provider of software for:

manufacturing execution systems, or MES, used within one factory or to manage multiple sites, for manufacturers of discrete products;

factory logistics applications such as simulation, scheduling and dispatching;

connecting and integrating equipment with factory management systems;

advanced process control; and

data analysis and management for factory and enterprise performance monitoring.

In addition, we provide the necessary training, consulting and other services required by customers to successfully implement and use our software.

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The production of semiconductors is arguably one of the most complex manufacturing environments in the world. Factory automation software has played an important role in semiconductor manufacturing since the 1970 s. Computer integrated manufacturing was conceived to control the work flow of a process, gather data and track product in a fab, and to measure and analyze fab performance in order to assist in production and business decisions.

Similar to the MES applications, other software packages were developed by various companies to meet fab requirements, ranging from communicating with and controlling process equipment to factory modeling, scheduling, automated dispatching, planning and data analysis. Industry standards that established protocols for equipment to communicate with a host computer system, and other protocols, paved the way for equipment to be connected online to fab management systems such as the MES, enabling full automation when further integrated with the material handling systems, automated dispatching applications and other software. We entered the factory automation software market through an acquisition strategy aimed at consolidating a number of applications into an integrated software suite.

As semiconductor manufacturing moves towards full automation, factory automation software takes on even more importance. The MES software is required to model and store in its database nearly every resource in the fab production lots, wafers, non-production wafers, equipment, recipes, process plans, operators, engineers, durable goods such as carriers, reticles, and so forth. The MES contains the real-time status of every item so that, as an example, fab managers can track the location of virtually any production lot or the state of virtually any process tool such as running, idle, down, etc. More importantly, this information is available to other software applications so that dispatching decisions, reports, alarms, data analysis and machine commands can be executed automatically.

We believe it is critical that the major software applications are integrated together to provide an overall solution that meets the increasingly complex demands of automation. These solutions help increase throughput, improve utilization of resources and factory performance, and reduce in-process inventory. Although many of the software applications already have the ability to integrate to other applications or systems, the implementation of individual pieces require services and consulting expertise from the software providers. Services can range from training and best practices consulting to full integration services that essentially deliver a turnkey solution to the customer.

The functionality of semiconductor MES software allowed it to be applied to other complex industries that require tracking and control of work-in-process, such as in the manufacture of liquid crystal displays or LCD, storage devices such as magnetic thin film heads, medical devices, and telecommunications fiber optics. New markets are being opened for Brooks outside of the semiconductor industry as track and trace capabilities become more in demand in various industries, driven in part by new government regulations and compliance standards. Likewise, simulation and modeling software can be used in a number of different industries where logistics and planning are important, ranging from airport traffic control to theme park scheduling. Finally, many engineering data analysis and statistical process control products are being used in complex manufacturing environments in addition to the semiconductor industry, such as LCD, precision electronics, automotive, aerospace, and life sciences industries.

## **Products**

### ***Hardware Products***

Our hardware for process and metrology equipment is offered as either modules or systems. Modules are discrete components such as robots and aligners, cryogenic pumps, chillers and vacuum gauges, while systems are pre-integrated assemblies such as the cluster tool platform that may consist of a number of modules provided by us or other suppliers. We provide automation modules and systems for vacuum and atmospheric equipment as well as tool control software, mini-environment products, calibration and alignment products, and high-precision airflow controls primarily for the semiconductor industry. Other industries that we serve in this segment of the market include LCD



and data storage. We use a common architecture in the design and production of systems and modules. Shared technologies and common software controls enable us to respond to changing industry demands, such as processing larger 300mm semiconductor wafers. Our Original Equipment Manufacturer ( OEM ) customers have the option of either buying individual modules from us and assembling their own systems in-house, or buying the entire automation system from us, pre-assembled, tested and certified from our factory. Also included in this

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segment is the assembly and manufacturing of customer designed automation systems, known as contract automation systems.

The major modules we offer for equipment are vacuum robotics, atmospheric robotics, wet robotics and loadport modules.

Vacuum modules include:

MagnaTran 7, a family of robots used in vacuum processes such as CVD, PVD and etch;

VacuTran, the legacy vacuum robot product line; and

MagnaTran 8, a new family of robots that addresses the needs of specific customers.

Vacuum pumping components and systems include:

CTI-Cryogenics cryopumps and systems;

On-Board monitoring and control systems; and

Turbo Plus® waterpumps and Turbopumps

Vacuum measurement components and systems include:

STABL-ION®, CONVECTRON® and MICRO-ION components and systems; and

Vacuum gauging products that are integrated into analytical instruments such as mass spectrometers

Our atmospheric robot modules include:

Razor, a new 2- and 3-FOUP trackless robot;

Reliance, a family of 3-, 4-, and 5-axis robots; and

407, a legacy atmospheric robot with a large installed base of customers.

We have introduced a new generation of atmospheric automation products to replace the current atmospheric product offerings, the culmination of an extensive R&D program the past 2 years. These new products were developed using a product life cycle management process designed to meet goals for performance, manufacturability, cost, reliability and support.

We also offer modules for wet processing, i.e., processes that utilize liquid chemicals such as acid baths for removing material from wafer surfaces, developers for photoresist and cleaning stations. The products we offer include:

AquaTran 7 wet robot; and

Reliance 8, a new family of wet robots for CMP.

Modules for LCD process tools include:

MagnaTran 70 series vacuum robots for Gen3, Gen4 and Gen5 glass technologies; and  
DLX and SLX vacuum robots for Gen6 and Gen7 technologies.

Also within the category of modules sold to OEMs are 300mm FOUP loadports. Our loadport modules include:

Vision, a new software-configurable 300mm loadport with touch-screen LCD;

FixLoad 6M, a 300mm loadport; and

SMIFLoad, a 200mm SMIF loadport.

Vacuum systems for semiconductor manufacturing that we offer include:

Gemini Express, a platform for vacuum cluster tools;

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InLine Express, a platform for linear, or in-line, tool configurations;

Marathon Express, our legacy cluster tool platform; and

We have also introduced our next generation of vacuum systems, including the Marathon Express 2, or M2, line of products.

Atmospheric systems we offer include:

Jet, a new EFEM designed for fast setup and easy integration;

Fab Express, an EFEM for 300mm and 200mm wafer sizes;

Atmospheric Express, a controlled environment atmospheric cluster tool for 200mm and smaller wafers; and

Custom systems, typically a customer-designed system with our modules.

For the LCD market, our systems offerings include:

Hercules Express, a cluster tool platform; and

Bali 400, an EFEM for LCD process tools.

Lithography automation solutions for reticle inspection, storage and management include:

Guardian Bare Reticle Stocker for storing reticles; and

Zaris, our reticle sorting, cleaning and macro-inspection tool.

We provide 200mm SMIF products directly to factory customers, including:

ErgoSpeed II loadport for 200mm SMIF that complements a number of other SMIF products that we provide to our customers;

Hermos RF readers for RFID applications;

IRIDnet, a tracking system utilizing infra-red technology; and

Custom mini-environments and tool enclosures.

Automated ID and tracking of carriers in a 300mm fab is provided by our RFID readers.

***Software Products***

We offer a range of products, from MES that manage the operations of an entire fab, to logistics software for scheduling and coordinating work flow, to individual software packages designed to meet specific requirements such as preventive maintenance systems for equipment. We also offer integrated systems that incorporate our software on an open architecture to deliver factory automation solutions tailored specifically for customers within the context of

their industry.

Our software also provides the capabilities to tie fab software systems into the enterprise and supply chain with planning and logistics software applications. We provide business system integration modules to provide integration between our manufacturing applications and business systems from SAP and Oracle. Real-time dispatching and factory scheduling applications can be used to drive manufacturing according to a customer's best practices. Automation and job management functions help to control manufacturing workflow and automate decision-making across multiple computer integrated manufacturing systems. Simulation software allows manufacturers to model and analyze the use and performance of their tools, systems and overall manufacturing environment.

Our MES products span a wide spectrum of factory requirements. Our offerings include:

FACTORYworks, a high-end MES that is flexible and highly configurable and can be tailored to meet the advanced requirements of complex operations such as 300mm manufacturing; and

Promis Systems, with its mature off-the-shelf functionality and large installed base, more suitable for customers who do not require extensive customization of functionality.

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We have built our software suite of applications by acquiring and developing products that complement our MES offerings. Products for equipment integration utilizing the SECS protocol include:

CELLworks-Grapheq, a UNIX-based cell controller;

WinSECS, a Windows-based equipment integration package;

STATIONworks, a Windows-based station control system; and

FABuilder, a Windows-based cell controller.

Real-time execution systems and logistics software include:

RTD, real-time dispatcher;

APF Reporter for factory performance reporting and analysis;

Activity Manager, an adaptive workflow manager that integrates workflow between multiple plant and enterprise applications workflow between the transport system and MES;

AutoSched for simulation and planning of workflow; and

CLASS-MCS for transport control that provides an equipment-neutral software system to manage and control material handling equipment including AMHS systems, conveyors, wafer and reticle stockers, and inter-floor lift devices in clean room environments.

Composite applications designed to simplify and lower the cost of integration between enterprise and plant floor systems and aid demand-driven manufacturing include:

RealView Manufacturing Intelligence, an enterprise manufacturing application to enhance overall plant performance;

Demand Execution, integrating Brooks Real-Time dispatcher with SAPs APO product;

Enterprise Quality Management, a framework for quality management that captures and analyzes data from multiple sources;

Asset Management, providing detailed production planning capabilities; and

Enterprise Integration Hub, which is designed to connect and integrate the capabilities of the four products listed immediately above and is certified for us with the products of SAP, AG, with whom Brooks software is collaborating on joint development activities.

We have recognized the growing need for process optimization and advanced process control, APC, in modern fabs. Our offerings for these requirements include:

Patterns for fault detection and classification;

BAP for advance process control and run-to-run control applications; and

iProcess for factory-wide process and tool health monitoring.

Engineering data analysis is another important requirement for managing a fab. We offer products that provide extensive data analysis and statistical process control, or SPC, including:

SPACE, a module for real-time SPC; and

RS Series and Cornerstone for design of experiments and statistical analysis.

We offer unique industry-specific systems that address the comprehensive needs of the customers who prefer a total solutions approach from one supplier, including:

300works for 300mm manufacturers; and

LCDworks for LCD manufacturers.

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These offerings provide applications built around our products.

Our software supports a wide range of manufacturing environments, from manual and semi-automated to fully automated operations. In deploying our solutions, manufacturers worldwide have seen improvements in their cycle times, yields, work-in-process levels, customer responsiveness and fulfillment, plant utilization, and their return-on-manufacturing-assets.

In addition to software packages, we offer comprehensive solutions delivery, training, consulting and post-implementation services designed to empower our customers to realize the capabilities of our products and solutions.

### **Customers**

We sell our products and services to nearly every major semiconductor chip manufacturer and OEM in the world, including all of the top ten chip companies and nine of the top ten equipment companies. Our customers also include companies who are in the LCD, data storage and other similar industries. As a result of the Helix acquisition, certain products are sold to non-semiconductor customers in imaging and coating and analytic instruments. We have major customers in the United States, Europe and Asia. We expect international revenues to continue to represent a significant percentage of total revenues. Our industry is seeing an increasing business shift to Asia. See Note 16,

Segment and Geographic Information of Notes to the Consolidated Financial Statements for further discussion of our sales by geographic region and revenue, income and assets by financial reporting segment. See Part I, Item 1A, Risk Factors for a discussion of the risks related to foreign operations.

Relatively few customers account for a substantial portion of our revenues, with the top twenty customers accounting for approximately 55% of our business in fiscal 2006. We do not have any single customer who makes up more than ten percent of our overall revenue for the year.

### **Sales, Marketing and Customer Support**

We market and sell our equipment and factory automation hardware and software in the United States, Asia and Europe through our direct sales organization. The sales process for our products is often multilevel, involving a team comprised of individuals from sales, marketing, engineering, operations and senior management. In many cases a customer is assigned a team that engages the customer at different levels of its organization to facilitate planning, provide product customization where required, and to assure open communication and support.

Our marketing activities include participation in trade shows, delivery of seminars, participation in industry forums, distribution of sales literature, and publication of press releases and articles in business and industry publications. To enhance communication and support, particularly with our international customers, we maintain sales and service centers in the United States, China, Japan, South Korea, Taiwan, Singapore, Malaysia, the United Kingdom, France and Germany. These facilities, together with our headquarters, maintain local support capability and demonstration equipment for customers to evaluate. Customers are encouraged to discuss the features and applications of our demonstration equipment with our engineers located at these facilities.

We provide services to assist customers through our global customer support organization, including the installation of hardware products, software implementation, product training, consulting and sustaining on-site support. We strive to provide world-class support to our customers to help make them successful users of our products through:

Service contracts, including multi-year agreements;



Fixed price repair programs;

Diagnostic and predictive maintenance support;

Telephone technical support;

Direct training programs;

User symposia and seminars; and

Operating manuals and other technical support information for our products.

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We maintain spare parts inventories in regional hubs to enable our personnel to serve our customers and to service our products more efficiently.

We provide an extensive range of global support and system monitoring services that are designed to lower the total costs of ownership for our customers. We increase our customers' system uptime through rapid response to potential operating problems. We also develop and deliver enhancements to our customers' installed base of production tools through upgrades and other services. Our service offerings include TrueBlue Service Agreements, GUTS® (Guaranteed Up Time Support) customer response system and GOLDLink® (Global On-Line Diagnostics) support system, which provides a remote e-diagnostics solution that allows us to monitor, in real time, the system performance of our customers' production tools. The GOLDLink capability has made us a leading total solution provider in the emerging market for Internet-based, proactive e-diagnostics for the semiconductor and semiconductor capital equipment industries.

## **Competition**

### ***Hardware***

The semiconductor fabs and process equipment manufacturing industries are highly competitive and characterized by continual changes and improvements in technology. The majority of equipment automation is still done in-house by OEMs. As a result, we believe that our primary opportunity in this area is from the larger semiconductor OEMs that currently satisfy their substrate handling needs in-house rather than by purchasing them from an external supplier such as us. For example, Applied Materials, the leading process equipment OEM, develops and manufactures a majority of its own central vacuum wafer handling systems and vacuum modules. Our competitors among external vacuum automation suppliers are primarily Japanese companies such as Daihen, Daikin and Rorze. Also, contract manufacturing companies such as Sanmina, FoxSemicon, and Flextronics are beginning to offer assembly and manufacturing services to the OEM companies. Our competitors among vacuum subsystems suppliers include Sumitomo Heavy Industries (SHI), Genesis, MKS instruments and Inficon.

Atmospheric tool automation is more outsourced with a number of competitors due to the low barriers to entry. We compete directly with other equipment automation suppliers of atmospheric modules and systems such as Asyst, Hirata, Kawasaki, Rorze, Sankyo, TDK and Shinko. Contract manufacturers are also providing assembly and manufacturing services for atmospheric systems, mainly Flextronics.

Brooks has a significant share of the market for vacuum cryogenic pumps and faces only a few competitors such as SHI (Sumitomo Heavy Industries) and Genesis. The measurement gauge market is more fragmented with a variety of competitors that include MKS Instruments.

We believe our customers will purchase our equipment automation products and vacuum subsystems as long as we continue to provide the necessary throughput, reliability, contamination control and accuracy for their advanced processing tools at an acceptable price point. We believe that we have competitive offerings with respect to all of these factors; however, we cannot guarantee that we will be successful in selling our products to OEMs who currently satisfy their automation needs in-house or from other independent suppliers, regardless of the performance or the price of our products.

In addressing the Asian markets, we may be at a competitive disadvantage to local suppliers. We are seeking to improve our competitive position by establishing stronger local capabilities, such as the YBA joint venture in Japan and more material sourcing in China.

We believe that the competitive factors when selling hardware directly to fabs are technical capabilities, reliability, price/performance, ease of integration and global sales and support resources. We believe that our solutions compete favorably with respect to all these factors.

*Software*

We believe that the primary competitive factors in the end-user market for factory automation software are product functionality, degree of integration with other applications, compatibility of hardware and software architecture, price/performance, ease of implementation, cost of ownership, vendor reputation and financial

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stability. We believe our products compete favorably with other systems with regards to the factors listed above due to the unique nature of the software segment. We also believe that the relative importance of these competitive factors may change over time.

We experience direct competition in the factory automation software market from various companies, including Applied Materials, Camstar, IBM and numerous small independent software companies. In some cases, we are able to sell our software products to our direct competitors. For example, Daifuku uses our software to control the operations of their AMHS hardware.

Many customers purchase software products from more than one supplier. Even in cases where a competitor is selected over us for a particular application, we may still gain substantial business with that customer since our product offerings cover a wide range of requirements and are considered best-in-class for many applications.

In advanced fabs, a greater burden is placed on software and implementation of increasingly complex automation applications, resulting in a critical need for integration of many different software and hardware components. We cooperate with large organizations such as IBM, SAP and Hewlett Packard to deliver complete solutions for customers. When we subcontract our products and services to another company, our ability to win business may be highly dependent on the success of the prime contractor with whom we have partnered.

## **Research and Development**

Our research and development efforts are focused on developing new products and services as well as further enhancing the functionality, degree of integration, reliability and performance of our existing products. Our engineering, marketing, operations and management personnel have developed close collaborative relationships with many of their counterparts in customer organizations and have used these relationships to identify market demands and focus our research and development investment to meet those demands. With the rapid pace of change that characterizes semiconductor technology it is essential for us to provide high-performance and reliable products in order for us to maintain our leadership position. Software in particular represents a business that relies heavily on research and development resources to develop, enhance and support our products.

## **Manufacturing**

Manufacturing is one of our core competencies. Our manufacturing operations are used for product assembly, integration and testing. We have adopted quality assurance procedures that include standard design practices, component selection procedures, vendor control procedures and comprehensive reliability testing and analysis to assure the performance of our products. Our two major manufacturing facilities in Chelmsford, Massachusetts and Kiheung, Korea are ISO 9001 certified. Additionally we have a facility in Jena, Germany whose purpose is to perform integration and final testing of our products for the European market. We acquired additional manufacturing facilities in Mansfield, Massachusetts, Longmont, Colorado and Petaluma, California in connection with the acquisition of Helix. We also acquired additional manufacturing facilities in Gresham, Oregon in connection with the acquisition of Syntetics.

We utilize a just-in-time manufacturing strategy, based on the concepts of demand flow technology, for a large portion of our manufacturing process. We believe that this strategy coupled with the outsourcing of non-critical components such as machined parts, wire harnesses, PC boards, etc. reduces fixed operating costs, improves working capital efficiency, reduces manufacturing cycle times and improves flexibility to rapidly adjust our production capacities. While we often use single source suppliers for certain key components and common assemblies to achieve quality control and the benefits of economies of scale, we believe that these parts and materials are readily available from other supply sources. We are currently focusing our efforts in implementing global low-cost sourcing and

manufacturing strategies, specifically in Asia.

We have established a subsidiary in India to provide low cost off-shore engineering resources primarily for sustaining mature software products. As a result, our core staff of software engineers should be better enabled to focus on research and development of new technology and enriching the functions of currently active products.

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### **Patents and Proprietary Rights**

We rely upon patents, trade secret laws, confidentiality procedures, copyrights, trademarks and licensing agreements to protect our technology. Due to the rapid technological change that characterizes the semiconductor and flat panel display process equipment industries, we believe that the improvement of existing technology, reliance upon trade secrets and unpatented proprietary know-how and the development of new products may be as important as patent protection in establishing and maintaining competitive advantage. To protect trade secrets and know-how, it is our policy to require all technical and management personnel to enter into nondisclosure agreements. We cannot guarantee that these efforts will meaningfully protect our trade secrets.

We have obtained patents and will continue to make efforts to obtain patents, when available, in connection with our product development program. We cannot guarantee that any patent obtained will provide protection or be of commercial benefit to us. Despite these efforts, others may independently develop substantially equivalent proprietary information and techniques. As of September 30, 2006, we have obtained 338 United States patents and had 108 United States patent applications pending on our behalf. In addition, we have obtained 374 foreign patents and had 388 foreign patent applications pending on our behalf. Our United States patents expire at various times through April 2022. We cannot guarantee that our pending patent applications or any future applications will be approved, or that any patents will not be challenged by third parties. Others may have filed and in the future may file patent applications that are similar or identical to ours. These patent applications may have priority over patent applications filed by us.

We have successfully licensed our FOUP load port technology to several companies and continue to pursue the licensing of this technology to more companies that we believe are utilizing our intellectual property.

There has been substantial litigation regarding patent and other intellectual property rights in the semiconductor and related industries. We have in the past been, and may in the future be, notified that we may be infringing intellectual property rights possessed by other third parties. We cannot guarantee that infringement claims by third parties or other claims for indemnification by customers or end users of our 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 our business, financial condition and results of operations. If any such claims are asserted against our intellectual property rights, we may seek to enter into a royalty or licensing arrangement. We cannot guarantee, however, that a license will be available on reasonable terms or at all. We 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 our management's attention and resources. In addition, if we do not prevail in such litigation or succeed in an attempted design around, we 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.

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 and 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. Jenoptik has appealed that order, and that appeal is currently pending before the Court of Appeals for the Federal Circuit. In addition, the District Court has set a January 2007 trial date on the

question of the validity of the Asyst claim upon which summary judgment was granted in Asyst's favor.

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 Asyst's allegations, we do not

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believe we are infringing any claims of Asyst's patents. We intend to continue to support Jenoptik to argue vigorously, among other things, the position that the IridNet system does not infringe the Asyst patent. If Asyst prevails in its appeal and ultimately in its case against Jenoptik, Asyst may 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. If a license from Asyst were not available, we could be forced to incur substantial costs to reengineer the IridNet product, which could diminish its value. In any case, we could face litigation with Asyst. Jenoptik has agreed to indemnify us for any loss we may incur in this action.

In addition, Asyst made assertions in approximately 1995 that certain technology employed in products manufactured and sold by Hermos Informatik GmbH infringed one or more of Asyst's patents. We acquired Hermos in July 2002. To date Asyst has taken no steps to assert or enforce any such rights against us, and to our knowledge, Asyst never commenced enforcement proceedings against Hermos prior to its acquisition by us. Should Asyst seek to pursue any such claims against Hermos or us, we would be subject to all of the business and litigation risks identified in the preceding paragraph.

On August 29, 2006, we acquired a portfolio of semiconductor-related patents from Newport Corporation, consisting of 16 registered United States patents, one United States pending patent application, three registered non-U.S. patents, and 11 non-U.S. pending patent applications. The transferred patents are subject to certain non-exclusive licenses previously granted by Newport Corporation. In consideration for this portfolio, we paid Newport Corporation the sum of \$3 million.

## **Backlog**

Backlog for our products as of September 30, 2006, totaled \$181.4 million as compared to \$87.2 million at September 30, 2005. Backlog consists of purchase orders for which a customer has scheduled delivery within the next 12 months. Backlog for our hardware segment and software segment was \$152.6 million and \$28.8 million, respectively, at September 30, 2006. Orders included in the backlog may be cancelled or rescheduled by customers without significant penalty. Backlog as of any particular date should not be relied upon as indicative of our revenues for any future period. A substantial percentage of current business generates no backlog because we deliver our products and services in the same period in which the order is received.

## **Employees**

At September 30, 2006, we had approximately 2,400 employees as compared to 1,800 employees at September 30, 2005. The net increase is reflective of the Company's acquisition of Helix Technology Corporation in October 2005 and Synetics Solutions Inc. in June 2006. We believe our future success will depend in large part on our ability to attract and retain highly skilled employees.

Approximately 80 employees in our Jena, Germany facility are covered by a collective bargaining agreement. We consider our relationships with our employees to be good.

## **Available Information**

Our Internet website address is <http://www.brooks.com>. Through our website, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonable practicable after we electronically file such material with, or furnish it to, the SEC. These SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.



**Gartner Information**

Information contained in this annual report on Form 10-K attributable to Gartner, Gartner Dataquest or Dataquest as reflected in their 2005 Semiconductor Manufacturing Equipment Market Share Analysis published in April 2006 represents Gartner's estimates and we make no representation as to the accuracy or completeness of this information.

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**Item 1A. Risk Factors**

**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 recently incurred substantial operating losses and may have future losses.*

Our business is largely dependent on capital expenditures in the semiconductor manufacturing industry and other businesses employing similar manufacturing technology. The semiconductor manufacturing industry in turn depends on current and anticipated demand for integrated circuits and the products that use them. In recent years, these businesses have experienced unpredictable and volatile business cycles due in large part to rapid changes in demand and manufacturing capacity for semiconductors. The semiconductor industry experienced a prolonged downturn, which negatively impacted us from the third quarter of fiscal 2001 until well into 2003. Although our business became profitable during 2004, a downward trend again developed during fiscal 2005 in the semiconductor industry, and our revenues in fiscal 2005 declined from the prior year. We could continue to experience future operating losses during an industry downturn and any period of uncertain demand. If an industry downturn continues for an extended period of time, our business could be materially harmed. Conversely, if demand improves rapidly, we could have insufficient inventory and manufacturing capacity to meet our customer needs on a timely basis, which could result in the loss of customers and various other expenses that could reduce gross margins and profitability.

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

We face substantial competition throughout the world in each of our product areas. Our primary competitors are Asyst, Camstar, Genesis, IBM, Inficon, Kawasaki, MKS Instruments, Rorze, Sankyo, SHI, Shinko and TDK and other smaller, regional companies. We also endeavor to sell products to OEM manufacturers, such as Applied Materials, Novellus, KLA-Tencor and TEL, that also satisfy their semiconductor and flat panel display handling needs internally rather than by purchasing systems or modules from a supplier like us. Some of our competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities than we do. We expect our competitors to continue to improve the performance of their current products and to introduce new products and technologies that could adversely affect sales of our current and future products and services. New products and technologies developed by our competitors or more efficient production of their products could require us to make significant price reductions to avoid losing orders. If we fail to respond adequately to pricing pressures or fail to develop products with improved performance or developments with respect to the other factors on which we compete, we could lose customers or orders. If we are unable to compete effectively, our business and prospects could be materially harmed.



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**Risks Relating to Brooks**

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

Our revenues, operating margins and other operating results could fluctuate significantly from quarter to quarter depending upon a variety of factors, including:

demand for our products as a result of the cyclical nature of the semiconductor manufacturing industry and the markets upon which it depends or otherwise;

changes in the timing and terms of product orders by our customers as a result of our customer concentration or otherwise;

changes in the mix of products and services that we offer;

timing and market acceptance of our new product introductions;

delays or problems in the planned introduction of new products, or in the performance of any such products following delivery to customers;

our competitors' announcements of new products, services or technological innovations, which can, among other things, render our products less competitive due to the rapid technological change in our industry;

the timing and related costs of any acquisitions, divestitures or other strategic transactions;

our ability to reduce our costs in response due to decreased demand for our products and services;

disruptions in our manufacturing process or in the supply of components to us;

write-offs for excess or obsolete inventory; and

competitive pricing pressures.

As a result of these risks, we believe that quarter to quarter comparisons of our revenue and operating results may not be meaningful, and that these comparisons may not be an accurate indicator of our future performance.

*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.*

As the technology in our systems and manufacturing operations has become more complex and customized, it has become increasingly difficult to design and integrate these technologies into our newly-introduced systems, procure adequate supplies of specialized components, train technical and manufacturing personnel and make timely transitions to volume manufacturing. Due to the complexity of our manufacturing processes, we have on occasion failed to meet our customers' delivery or performance criteria, and as a result we have deferred revenue recognition, incurred late delivery penalties and had higher warranty and service costs. We may experience these problems again in the future. We may be unable to recover expenses we incur due to changes or cancellations of customized orders. There are also substantial unanticipated costs associated with ensuring that new products function properly and reliably in the early stages of their life cycle. These costs have been and could in the future be greater than expected as a result of these complexities. Our failure to control these costs could materially harm our business and profitability.

Because many of our customers use our products for business-critical applications, any errors, defects or other performance or technical problems could result in financial or other damage to our customers and could significantly impair their operations. Our customers could seek to recover damages from us for losses related to any of these issues. A product liability claim brought against us, even if not successful, would likely be time-consuming and costly to defend and could adversely affect our marketing efforts.

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***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.***

Our success is dependent on our ability to respond to the rapid rate of technological change present in the semiconductor manufacturing industry. The success of our product development and introduction depends on our ability to:

- accurately identify and define new market opportunities and products;
- obtain market acceptance of our products;
- timely innovate, develop and commercialize new technologies and applications;
- adjust to changing market conditions;
- differentiate our offerings from our competitors' offerings;
- obtain intellectual property rights;
- continue to develop a comprehensive, integrated product and service strategy;
- properly price our products and services; and
- design our products to high standards of manufacturability such that they meet customer requirements.

If we cannot succeed in responding in a timely manner to technological and/or market changes or if the new products that we introduce do not achieve market acceptance, we could lose our competitive position which could materially harm our business and our prospects.

***The global nature of our business exposes us to multiple risks.***

For the fiscal year ended September 30, 2006, approximately 41% of our revenues were derived from sales outside North America, while approximately 48% of our revenues in fiscal 2005 were derived from sales outside North America. We expect that international sales, including increased sales in Asia, will continue to account for a significant portion of our revenues. As a result of our international operations, we are exposed to many risks and uncertainties, including:

- difficulties in staffing, managing and supporting operations in multiple countries;
- longer sales-cycles and time to collection;
- tariff and international trade barriers;
- fewer legal protections for intellectual property and contract rights abroad;
- different and changing legal and regulatory requirements in the jurisdictions in which we operate;
- government currency control and restrictions on repatriation of earnings;

fluctuations in foreign currency exchange and interest rates; and

political and economic changes, hostilities and other disruptions in regions where we operate.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, threats to our intellectual property, difficulty in collecting receivables, and a higher cost of doing business, any of which could materially harm our business and profitability.

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

We acquired Helix effective October 26, 2005 and Synetics effective June 30, 2006. In addition we have made in the past, and may make in the future, acquisitions or significant investments in businesses with complementary products, services and/or technologies. Our acquisitions present numerous risks, including:

difficulties in integrating the operations, technologies, products and personnel of the acquired companies and realizing the anticipated synergies of the combined businesses;

defining and executing a comprehensive product strategy;

managing the risks of entering markets or types of businesses in which we have limited or no direct experience;

the potential loss of key employees, customers and strategic partners of ours or of acquired companies;

unanticipated problems or latent liabilities, such as problems with the quality of the installed base of the target company's products or infringement of another Company's intellectual property by a target Company's activities or products;

problems associated with compliance with the target company's existing contracts;

difficulties in managing geographically dispersed operations; and

the diversion of management's attention from normal daily operations of the business.

If we acquire a new business, we may be required to expend significant funds, incur additional debt or issue additional securities, which may negatively affect our operations and be dilutive to our stockholders. In periods following an acquisition, we will be required to evaluate goodwill and acquisition-related intangible assets for impairment. When such assets are found to be impaired, they will be written down to estimated fair value, with a charge against earnings. The failure to adequately address these risks could materially harm our business and financial results.

***The planned divestiture of the Brooks Software Division could adversely affect our business or our financial results.***

On November 3, 2006, we entered into an agreement to sell the assets of the Brooks software Division (the Division) to Applied Materials, Inc. (Applied) pending the completion of necessary regulatory approvals. If those approvals are not obtained and the transaction is not completed, the business of the Division could be adversely affected by a loss of customer confidence, a reduction in employee morale and a reduction in revenue. If the sale of the Division is completed, the removal of the Division from Brooks could have an adverse effect on our relationship with customers to whom we have sold both hardware and software products, and the loss of the revenue associated with the Division and the associated profits could adversely affect both our financial results and our ability to diminish the impact on our business of the cyclical nature of the semiconductor manufacturing industry.

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

The continuing service of our executive officers and essential engineering, technical and management personnel, together with our ability to attract and retain such personnel, is an important factor in our continuing ability to execute our strategy. There is substantial competition to attract such employees and the loss of any such key employees could



have a material adverse effect on our business and operating results. The same could be true if we were to experience a high turnover rate among engineering and technical personnel and we were unable to replace them.

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***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.***

On May 16, 2006, the Securities and Exchange Commission notified us that it had commenced an informal inquiry into certain stock option grants and accounting practices. Subsequently, we have been informed that the informal inquiry has been converted into a formal inquiry, and we have received a subpoena from the SEC requesting, among other things, all documents relating to stock options available for exercise after January 1, 1999. We are cooperating fully with the SEC and will continue to do so as the inquiry moves forward. At this point we are unable to predict what, if any, consequences the SEC investigation may have on us. However, the investigation could result in considerable legal expenses, divert management's attention from other business concerns and harm our business. If the SEC were to commence legal action, we could be required to pay significant penalties and/or fines and could become subject to an administrative order and/or a cease and desist order. The filing of our restated financial statements to correct the discovered accounting errors has not resolved the pending SEC investigation into our past practices with respect to equity incentives. The resolution of the SEC investigation could require the filing of additional restatements of our prior financial statements, and/or our restated financial statements, or require that we take other actions not presently contemplated.

On May 19, 2006, we received a grand jury subpoena from the United States Attorney for the Eastern District of New York (the US Attorney ) requesting all documents relating to stock option grants between 1995 and the present and documents concerning the restatement of our financial statements. Responsibility for this investigation was subsequently assumed by the United States Attorney for the District of Massachusetts, and we have received a subpoena from that office requesting, among other things, similar documents relating to option grants. The investigation remains ongoing and we are fully cooperating with the US Attorney. We cannot predict when this inquiry will conclude or its eventual outcome. The uncertainty associated with this investigation into our accounting practices and the restatement of our financial statements could seriously harm our business, financial condition and reputation.

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

Several lawsuits, including both putative securities class actions and shareholder derivative actions, have been filed against us, our directors and officers and certain of our former directors and officers relating to our past practices with respect to equity incentives. *See* Part I, Item 3, Legal Proceedings for a more detailed description of these proceedings. We are and may in the future be subject to other litigation arising in the normal course of our business. These actions are in the preliminary stages, and their ultimate outcome may have a material adverse effect on our business, financial condition and results of operations. Litigation may be time-consuming, expensive and disruptive to normal business operations, and the outcome of litigation is difficult to predict. The defense of these lawsuits will result in significant expense and the continued diversion of our management's time and attention from the operation of our business, which could impede our ability to achieve our business objectives. Some or all of the amount we may be required to pay to satisfy a judgment or settlement of any or all of these claims may not be covered by insurance.

Under indemnification agreements we have entered into with our officers and directors, we are required to indemnify them, and advance expenses to them, in connection with their participation in proceedings arising out of their service to us. These payments may be material, in particular if any of these individuals become targets of regulatory investigations into our past practices with respect to equity incentives.

**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.***

We receive a significant portion of our revenues in each fiscal period from a relatively limited number of customers, and that trend is likely to continue. Sales to our ten largest customers accounted for approximately 43%, 44% and 39% of our total revenues in the fiscal years ended September 30, 2006, 2005 and 2004, respectively. As

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the semiconductor manufacturing industry continues to consolidate and further shifts to foundries which manufacture semiconductors designed by others, the number of our potential customers could decrease, which would increase our dependence on our limited number of customers. The loss of one or more of these major customers or a decrease in orders from one of these customers could materially affect our revenue, business and reputation.

***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.***

Our customers may need several months to test and evaluate our products. This increases the possibility that a customer may decide to cancel or change plans, which could reduce or eliminate our sales to that customer. The impact of this risk can be magnified during the periods in which we introduce a number of new products, as was the case during fiscal 2005, and will continue in fiscal 2006. As a result of this lengthy sales cycle, we may incur significant research and development expenses, and selling, general and administrative expenses before we generate the related revenues for these products, and we may never generate the anticipated revenues if our customer cancels or changes its plans.

In addition, many of our products will not be sold directly to the end-user but will be components of other products. As a result, we rely on OEMs of our products to select our products from among alternative offerings to be incorporated into their equipment at the design stage; so-called design-ins. The OEM's decisions often precede the generation of volume sales, if any, by a year or more. Moreover, if we are unable to achieve these design-ins from OEMs, we would have difficulty selling our products to that OEM because changing suppliers involves significant cost, time, effort and risk on the part of that OEM.

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

Sales of our products are often made pursuant to individual purchase orders and not under long-term commitments and contracts. Our customers frequently do not provide any assurance of minimum or future sales and are not prohibited from purchasing products from our competitors at any time. Accordingly, we are exposed to competitive pricing pressures on each order. Our customers also engage in the practice of purchasing products from more than one manufacturer to avoid dependence on sole-source suppliers for certain of their needs. The existence of these practices makes it more difficult for us to increase price, gain new customers and win repeat business from existing customers.

## **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.***

We rely upon patents, trade secret laws, confidentiality procedures, copyrights, trademarks and licensing agreements to protect our technology. Due to the rapid technological change that characterizes the semiconductor- and flat panel display process equipment industries, we believe that the improvement of existing technology, reliance upon trade secrets and unpatented proprietary know-how and the development of new products may be as important as patent protection in establishing and maintaining competitive advantage. To protect trade secrets and know-how, it is our policy to require all technical and management personnel to enter into nondisclosure agreements. We cannot guarantee that these efforts will meaningfully protect our trade secrets.

There has been substantial litigation regarding patent and other intellectual property rights in the semiconductor related industries. We have in the past been, and may in the future be, notified that we may be infringing intellectual property rights possessed by other third parties. We cannot guarantee that infringement claims by third parties or other

claims for indemnification by customers or end users of our 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 our business, financial condition and results of operations.

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Particular elements of our technology could be found to infringe on the intellectual property rights or patents of others. Other companies may hold or obtain patents on inventions or otherwise claim proprietary rights to technology necessary to our business. For example, twice in 1992 and once in 1994 we received notice from General Signal Corporation that it believed that certain of our tool automation products infringed General Signal's patent rights. We believe the matters identified in the notice from General Signal were also the subject of a dispute between General Signal and Applied Materials, Inc., which was settled in November 1997. There are also claims that have been made by Asyst Technologies Inc. that certain products we acquired through acquisition embody intellectual property owned by Asyst. To date no action has been instituted against us directly by General Signal, Applied Materials or Asyst.

We cannot predict the extent to which we might be required to seek licenses or alter our products so that they no longer infringe the rights of others. We also cannot guarantee that licenses will be available or the terms of any licenses we may be required to obtain will be reasonable. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical and could detract from the value of our products. If a judgment of infringement were obtained against us, we could be required to pay substantial damages and a court could issue an order preventing us from selling one or more of our products. Further the cost and diversion of management attention brought about by such litigation could be substantial, even if we were to prevail. Any of these events could result in significant expense to us and may materially harm our business and our prospects.

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

Our ability to compete is significantly affected by our ability to protect our intellectual property. Existing trade secret, trademark and copyright laws offer only limited protection, and certain of our patents could be invalidated or circumvented. In addition, the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products. We cannot guarantee that the steps we have taken to protect our intellectual property will be adequate to prevent the misappropriation of our technology. Other companies could independently develop similar or superior technology without violating our intellectual property rights. In the future, it may be necessary to engage in litigation or like activities to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others, including our customers. This could require us to incur significant expenses and to divert the efforts and attention of our management and technical personnel from our business 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.***

Most of our manufacturing facilities are concentrated in one location. If the operations of these facilities were disrupted as a result of a natural disaster, fire, power or other utility outage, work stoppage or other similar event, our business could be seriously harmed because we may be unable to manufacture and ship products and parts to our customers in a timely fashion.

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

We currently obtain many of our key components on an as-needed, purchase order basis from numerous suppliers. We do not generally have long-term supply contracts with these suppliers, and many of them have undertaken cost-containment measures in light of the recent downturn in the semiconductor industry. In the event of an industry upturn, these suppliers could face significant challenges in delivering components on a timely basis. Our inability to obtain components in required quantities or of acceptable quality could result in delays or reductions in product shipments to our customers. In addition, if a supplier or sub-supplier alters their manufacturing processes suffers a production stoppage for any reason or modifies or discontinues their products, this could result in a delay or reduction in product shipments to our customers. Any of the contingencies could cause us to lose customers, result in delayed or

lost revenue and otherwise materially harm our business.

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***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.***

We assessed the effectiveness of our internal control over financial reporting as of September 30, 2006 and assessed all deficiencies on both an individual basis and in combination to determine if, when aggregated, they constitute more than a significant deficiency. As a result of this evaluation, no material weaknesses were identified. Although we have completed the documentation and testing of the effectiveness of our internal control over financial reporting for fiscal 2006, as required by Section 404 of the Sarbanes-Oxley Act of 2002, we expect to continue to incur costs in order to maintain compliance with that section of the Sarbanes-Oxley Act. We continue to monitor controls on an ongoing basis in fiscal 2007 for any deficiencies. No evaluation can provide complete assurance that our internal controls will detect or uncover all failures of persons within our company to disclose material information otherwise required to be reported. The effectiveness of our controls and procedures could also be limited by simple errors or faulty judgments. In addition, if we continue to expand globally, the challenges involved in implementing appropriate internal controls will increase and will require that we continue to improve our internal controls.

In the future, if we fail to complete the Sarbanes-Oxley 404 evaluation in a timely manner, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Recently completed and future acquisitions of companies, some of which may have operations outside the United States, may provide us with challenges in implementing the required processes, procedures and controls in our acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities laws in the United States. Although we intend to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, we cannot be certain that we will be successful in complying with Section 404.

***Our stock price is volatile.***

The market price of our common stock has fluctuated widely. From the beginning of fiscal year 2005 through the end of fiscal year 2006, our stock price fluctuated between a high of \$18.73 per share and a low of \$10.61 per share. Consequently, the current market price of our common stock may not be indicative of future market prices, and we may be unable to sustain or increase the value of an investment in our common stock. Factors affecting our stock price may include:

- variations in operating results from quarter to quarter;
- changes in earnings estimates by analysts or our failure to meet analysts' expectations;
- changes in the market price per share of our public company customers;
- market conditions in the semiconductor industry or the industries upon which it depends;
- general economic conditions;
- political changes, hostilities or natural disasters such as hurricanes and floods;
- low trading volume of our common stock; and



the number of firms making a market in our common stock.

In addition, the stock market has recently experienced significant price and volume fluctuations. These fluctuations have particularly affected the market prices of the securities of high technology companies like ours. These market fluctuations could adversely affect the market price of our common stock.

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

Our certificate of incorporation, bylaws and contracts contain provisions that would make more difficult an acquisition of control of us and could limit the price that investors might be willing to pay for our securities, including:

the ability of our board of directors to issue shares of preferred stock in one or more series without further authorization of stockholders;

a prohibition on stockholder action by written consent;

the elimination of the right of stockholders to call a special meeting of stockholders;

a requirement that stockholders provide advance notice of any stockholder nominations of directors to be considered at any meeting of stockholders;

a requirement that the affirmative vote of at least 80 percent of our shares be obtained for certain actions requiring the vote of our stockholders; and

a requirement under our shareholder rights plan that, in many potential takeover situations, rights issued under the plan become exercisable to purchase our common stock at a price substantially discounted from the then applicable market price of our common stock.

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

The Financial Accounting Standards Board (FASB) issued in December 2004 Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, an amendment of FASB Statements Nos. 123 and 95, that addresses the accounting treatment for employee stock options and other share-based payment transactions. The statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires that such transactions be accounted for using a fair-value-based method and recognized as expenses. These expenses have been incorporated into our financial statements beginning in the quarter ending December 31, 2005. Our stock-based compensation cost, which reflects the adoption of Statement 123R, was \$8.3 million in fiscal 2006. In future periods, stock-based compensation cost could have a material effect on our net income as a result of Statement 123R, and could adversely affect the market price of our common stock.

### ***Item 1B. Unresolved Staff Comments***

We have not received written comments from the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934, as amended, that were received 180 days or more before September 30, 2006 and remain unresolved.

### ***Item 2. Properties***

Our corporate headquarters and primary manufacturing/research and development facilities are currently located in three buildings in Chelmsford, Massachusetts, which we purchased in January 2001. We have a lease on a



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fourth building in Chelmsford adjacent to the three that we own. In summary, we maintain the following active facilities:

| <b>Location</b>           | <b>Functions</b>   | <b>Square Footage (approx.)</b> | <b>Ownership Status/Lease Expiration</b>             |
|---------------------------|--|---------------------------------|--|
| Chelmsford, Massachusetts | Corporate headquarters, training, manufacturing, R&D hardware and software | 295,000                         | Owned  |
| Chelmsford, Massachusetts | Manufacturing, training and warehouse                                      | 93,000                          | October 2014   |
| Jena, Germany             | Manufacturing, R&D hardware, sales, support and training (4 buildings)     | 38,700                          | Several leases with terms that end through July 2009 |
| Salt Lake City, Utah      | R&D software and training  | 33,500                          | September 2011                                       |
| San Jose, California      | Sales & support and R&D hardware   | 55,600                          | January 2010   |
| Gresham, Oregon           | Manufacturing and R&D hardware   | 154,800                         | December 2010  |
| Petaluma, California      | Manufacturing and R&D hardware   | 77,300                          | December 2007  |
| Kiheung, South Korea      | Manufacturing, R&D hardware and sales & support                            | 63,000                          | November 2015  |
| Phoenix, Arizona          | R&D software   | 19,500                          | Owned  |
| Mansfield, Massachusetts  | Manufacturing and R&D hardware   | 80,000                          | December 2006  |
| Longmont, Colorado        | Engineering, manufacturing and R&D hardware                                | 60,900                          | February 2015  |

Our hardware segment utilizes the facilities in Massachusetts, California, Colorado, Oregon, South Korea, and Germany. Our software segment utilizes facilities in Massachusetts, Utah and Arizona.

We maintain additional sales, support, service, and training offices in the United States (Florida, North Carolina, Pennsylvania and Texas), in Toronto, Canada and overseas in Europe (France, Germany and UK), as well as in Asia (Japan, China, Malaysia, Singapore, South Korea, India and Taiwan) and the Middle East (Israel).

We currently sublease a total of 188,700 square feet of space previously exited as a result of our various restructuring activities. Another 122,300 of square feet of mixed office and manufacturing/research and development space located in Massachusetts is not in use and unoccupied at this time. We are actively exploring options to sublease, sell or negotiate an early termination agreement on this vacant property.

**Item 3. Legal Proceedings**

There has been substantial litigation regarding patent and other intellectual property rights in the semiconductor and related industries. Brooks 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. Brooks 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 Brooks business, financial condition and results of operations. If any such claims are asserted against Brooks intellectual property rights, we may seek to enter into a royalty or licensing arrangement. Brooks cannot guarantee, however, that a license will be available on reasonable terms or at all. Brooks 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 our management's attention and resources. In addition, if Brooks does not prevail in such litigation or succeed in

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an attempted design around, Brooks 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.

In addition to the material set forth below, please see **Patents and Proprietary Rights** in Part 1, Item 1, **Business** for a description of certain potential patent disputes.

### ***ITI Lawsuit***

On or about April 21, 2005, we were served with a third-party complaint seeking to join us as a party to a patent lawsuit brought by an entity named Information Technology Innovation, LLC based in Northbrook, Illinois ( **ITI** ) against Motorola, Inc. ( **Motorola** ) and Freescale Semiconductor, Inc. ( **Freescale** ). In the lawsuit (the **ITI Lawsuit** ), ITI claimed that Motorola and Freescale had infringed a U.S. patent that ITI asserted covers processes used to model a semiconductor manufacturing plant. ITI asserted that we had induced and contributed to the infringement of the patent. Subsequently Intel Corporation ( **Intel** ) filed a lawsuit against ITI seeking a declaratory judgment that Intel had not infringed and was not infringing the patent (the **Intel Lawsuit** ) and notified us that Intel believed that we had an indemnification obligation to Intel, but that, at that time, Intel was not seeking to have those obligations determined and enforced in the Intel Lawsuit.

Freescale alleged that we had a duty to indemnify Freescale and Motorola from any infringement claims asserted against them based on their use of our AutoSched software program by paying all costs and expenses and all or part of any damages that either of them might incur as a result of the ITI Lawsuit brought by ITI.

Pursuant to an agreement executed on April 28, 2006, we settled and concluded with ITI and the other parties all of the matters that were or might have been raised in this litigation. In exchange for a cash payment, the settlement affords a license, releases and covenants from ITI not to sue us, the other parties named above, and all users of certain of our factory modeling software products such as the **Autosched** product. The Intel Lawsuit was also dismissed as a result of this settlement. In addition, we settled the claim for indemnification brought against us by Freescale by the payment to Freescale of \$400,000 to defray a portion of the legal expenses borne by Freescale in the defense of the ITI litigation.

### ***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 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, 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.

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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, and Thomas S. Grilk, Secretary and General Counsel of the Company, current Officers of the Company; 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 have served motions to dismiss the Consolidated Shareholder Derivative 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

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insider trading by certain defendants, Plaintiffs' costs and disbursements including attorneys' fees, accountants' and experts' fees, costs and expenses. The Defendants have filed motions to dismiss the Consolidated Verified Shareholder Derivative Complaint and to Stay this action pending the outcome of motions to dismiss in the 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. The Defendants have filed motions to dismiss the *Leech* complaint.

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. Competing plaintiffs and their counsel have moved for consolidation with the *Leech* action described above, and for appointment as lead counsel.

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.

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

During the quarter ended September 30, 2006, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

**Table of Contents****PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the Nasdaq National Market under the symbol BRKS. The following table sets forth, for the periods indicated, the high and low close prices per share of our common stock, as reported by the Nasdaq National Market:

|                                      | <b>High</b> | <b>Low</b> |
|--------------------------------------|-------------|------------|
| Fiscal year ended September 30, 2006 |             |            |
| First quarter                        | \$ 13.74    | \$ 11.70   |
| Second quarter                       | 17.65       | 12.72      |
| Third quarter                        | 14.85       | 11.00      |
| Fourth quarter                       | 14.14       | 10.61      |
| Fiscal year ended September 30, 2005 |             |            |
| First quarter                        | \$ 18.26    | \$ 13.48   |
| Second quarter                       | 18.73       | 14.38      |
| Third quarter                        | 16.21       | 12.86      |
| Fourth quarter                       | 16.60       | 13.00      |

**Number of Holders**

As of November 30, 2006, there were 1,262 holders on record of our common stock.

**Dividend Policy**

We have never declared or paid any cash dividends on our capital stock. Our current policy is to retain all of our earnings to finance future growth. In addition, we have never declared or issued any stock dividends on our capital stock and do not plan to issue any stock dividends in the foreseeable future.

**Issuance of Unregistered Common Stock**

Not applicable.

**Issuer's Purchases of Equity Securities**

We did not repurchase any of our equity securities during the fourth quarter of fiscal 2006.

**Table of Contents****Item 6. Selected Financial Data**

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing elsewhere in this report.

|   | <b>Year Ended September 30,</b>              |                |                |                         |                      |
|---|--|----------------|----------------|-------------------------|----------------------|
|   | <b>2006(4)(7)</b>                            | <b>2005(4)</b> | <b>2004(4)</b> | <b>2003(1)(2)(4)(5)</b> | <b>2002(3)(4)(6)</b> |
|   | <b>(In thousands, except per share data)</b> |                |                |                         |                      |
| Revenues  | \$ 692,870                                   | \$ 463,746     | \$ 535,053     | \$ 340,092              | \$ 300,538           |
| Gross profit  | \$ 244,784                                   | \$ 160,136     | \$ 199,666     | \$ 95,211               | \$ 63,681            |
| Income (loss) from continuing operations before income taxes and minority interests | \$ 29,907                                    | \$ (2,751)     | \$ 32,398      | \$ (194,806)            | \$ (637,491)         |
| Income (loss) from continuing operations  | \$ 25,841                                    | \$ (8,096)     | \$ 24,134      | \$ (199,926)            | \$ (732,222)         |
| Net income (loss)   | \$ 25,930                                    | \$ (11,612)    | \$ 14,659      | \$ (203,024)            | \$ (738,637)         |
| Basic earnings (loss) from continuing operations per share                          | \$ 0.36                                      | \$ (0.18)      | \$ 0.56        | \$ (5.44)               | \$ (28.37)           |
| Diluted earnings (loss) from continuing operations per share                        | \$ 0.36                                      | \$ (0.18)      | \$ 0.55        | \$ (5.44)               | \$ (28.37)           |
| Shares used in computing basic earnings (loss) per share                            | 72,323                                       | 44,919         | 43,006         | 36,774                  | 25,807               |
| Shares used in computing diluted earnings (loss) per share                          | 72,533                                       | 44,919         | 43,573         | 36,774                  | 25,807               |

|   | <b>As of September 30,</b> |             |             |             |             |
|---|----------------------------|-------------|-------------|-------------|-------------|
|   | <b>2006</b>                | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|   | <b>(In thousands)</b>      |             |             |             |             |
| Total assets  | \$ 992,577                 | \$ 624,080  | \$ 671,039  | \$ 493,245  | \$ 657,497  |
| Working capital   | \$ 252,633                 | \$ 168,231  | \$ 294,137  | \$ 135,156  | \$ 176,338  |
| Current portion of long-term debt and other obligations | \$ 11                      | \$ 12       | \$ 11       | \$ 98       | \$ 8        |
| Subordinated notes due 2008                             | \$                         | \$ 175,000  | \$ 175,000  | \$ 175,000  | \$ 175,000  |
| Other long-term debt (less current portion)             | \$ 2                       | \$ 2        | \$ 14       | \$ 25       | \$ 177      |
| Stockholders' equity                                    | \$ 799,134                 | \$ 309,835  | \$ 312,895  | \$ 162,830  | \$ 308,235  |

|  | <b>Year Ended September 30, 2006</b>         |                       |                      |                       |
|--|--|-----------------------|----------------------|-----------------------|
|  | <b>First Quarter</b>                         | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|  | <b>(In thousands, except per share data)</b> |                       |                      |                       |

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|  |             |            |            |            |
|--|-------------|------------|------------|------------|
| Revenues   | \$ 127,175  | \$ 169,177 | \$ 186,195 | \$ 210,323 |
| Gross profit   | \$ 36,934   | \$ 59,740  | \$ 71,483  | \$ 76,627  |
| Income (loss) from continuing operations                     | \$ (11,752) | \$ 4,354   | \$ 17,158  | \$ 16,081  |
| Basic earnings (loss) from continuing operations per share   | \$ (0.18)   | \$ 0.06    | \$ 0.23    | \$ 0.22    |
| Diluted earnings (loss) from continuing operations per share | \$ (0.18)   | \$ 0.06    | \$ 0.23    | \$ 0.22    |

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|  | <b>Year Ended September 30, 2005</b>         |                |                |                |
|--|--|----------------|----------------|----------------|
|  | <b>First</b>                                 | <b>Second</b>  | <b>Third</b>   | <b>Fourth</b>  |
|  | <b>Quarter</b>                               | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> |
|  | <b>(In thousands, except per share data)</b> |                |                |                |
| Revenues   | \$ 117,233                                   | \$ 129,454     | \$ 113,760     | \$ 103,299     |
| Gross profit   | \$ 41,086                                    | \$ 43,297      | \$ 39,523      | \$ 36,230      |
| Income (loss) from continuing operations                     | \$ (1,404)                                   | \$ (274)       | \$ 1,260       | \$ (7,678)     |
| Basic earnings (loss) from continuing operations per share   | \$ (0.03)                                    | \$ (0.01)      | \$ 0.03        | \$ (0.17)      |
| Diluted earnings (loss) from continuing operations per share | \$ (0.03)                                    | \$ (0.01)      | \$ 0.03        | \$ (0.17)      |

- (1) Amounts include results of operations of Microtool, Inc. (acquired October 9, 2002) for the periods subsequent to its acquisition.
- (2) Amounts include our share of the results of operations of Brooks Switzerland in accordance with the equity method of accounting.
- (3) Amounts include results of operations of Hermos Informatik GmbH (acquired July 3, 2002); PRI Automation, Inc. (acquired May 14, 2002); Intelligent Automation Systems, Inc. and IAS Products, Inc. (acquired February 15, 2002); Fab Air Control (acquired December 15, 2001); the Automation Systems Group of Zygo Corporation (acquired December 13, 2001); Tec-Sem A.G. (acquired October 9, 2001) and General Precision, Inc. (acquired October 5, 2001) for the periods subsequent to their respective acquisitions.
- (4) Amounts from continuing operations exclude results of operations of the Specialty Equipment and Life Sciences division, previously reported as the Company's Other reportable segment, which was reclassified as a discontinued operation in June 2005.
- (5) Amounts include \$40.0 million for asset impairments.
- (6) Amounts include \$474.4 million for asset impairments and \$106.7 million for deferred tax write-offs.
- (7) Amounts include results of operations of Helix Technology Corporation (acquired October 26, 2005) and Synetics Solutions Inc. (acquired June 30, 2006) for the periods subsequent to their respective acquisitions.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements in this Form 10-K constitute forward-looking statements which involve known risks, uncertainties and other factors which may cause the actual results, our performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements such as estimates of future revenue, gross margin, and expense levels as well as the performance of the semiconductor industry as a whole. Such factors include the Risk Factors set forth in Part I, Item 1A. Precautionary statements made herein should be read as being applicable to all related forward-looking statements whenever they appear in this report.

**Overview**

We are a leading supplier of automation products and solutions primarily serving the worldwide semiconductor market. We supply hardware, software 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 requirements of the global semiconductor industry, we also provide automation solutions for a number of related industries, including flat panel display manufacturing, data storage and other complex manufacturing.

We operate in two segments: hardware and software.

The hardware segment provides a wide range of wafer handling products, vacuum subsystems and wafer transport platforms for use within the semiconductor process and metrology equipment. Within the hardware

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segment, there are four businesses consisting of automation hardware products, vacuum products and subsystems, customer-designed automation and the global customer service organization. The 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. Another line of business includes the vacuum products and subsystems acquired from Helix that 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 to build customer-designed automation systems, or contract automation systems, in a program designed to help customers outsource their automation. This assembly and manufacturing capability was a core competency of Synetics Solutions, and these offerings have been combined under the line of business managed by the former Synetics enterprise. 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.

The software segment addresses the need for production management systems driven by the extensive tracking and tracing requirements of the semiconductor industry. At the core of these production systems is the manufacturing execution system ( MES ) that is primarily responsible for tracking the movement of production wafers in a fab, and managing the data and actions for every wafer, equipment, operator and other resources in the fab. These mission-critical systems provide real time information primarily to production operators, supervisors and fab managers. We provide other important software applications to meet the critical requirements of the fab, such as real time dispatching and scheduling, equipment communications, advanced process control, material control for the AMHS, activity execution and control, automated maintenance management of equipment, and other applications. Customers often purchase more than one of these software products from Brooks for a single fab, often driving the need for consulting and integration services. Our software products enable semiconductor manufacturers to increase their return on investment by maximizing production efficiency, and may be sold as part of an integrated solution or on a stand-alone basis. These software products and services are also used in many similar manufacturing industries as semiconductor, including flat panel display, data storage, and electronic assembly.

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

Implementing global low-cost sourcing and manufacturing strategies, specifically in Mexico and Asia;

Expanding our global customer service business;

Sustaining our ability to meet our customers requirements on a timely basis;

Successfully operating our newly-formed joint venture in Japan with Yaskawa;

Continuing to integrate Helix and Synetics into our operations, systems, processes and controls;

Expanding our sales of equipment automation products to process tool manufacturers that currently produce automation equipment internally;

Continuing to develop our customer designed automation ( CDA ) business with process tool manufacturers;

Greater expansion of our hardware products into the China market;



Improving the efficiency of our internal information and business systems, which could result in the upgrade or replacement of certain applications; and

Continuing to evaluate on an opportunistic basis whether new acquisitions of or alliances with other companies would be beneficial to our business and shareholders.

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In fiscal 2006, our total revenues increased 49.4% to \$692.9 million from the prior year compared to a 13.3% decline in fiscal 2005. This increase is primarily due to the additional revenues related to our acquisitions of Helix Technology Corporation and Synetics Solutions Inc., along with higher industry demand for semiconductor capital equipment in fiscal 2006. Our revenue by segment for fiscal 2006 and 2005 is as follows (in thousands):

|          | <b>For the Year Ended September 30,</b> |        |             |        |
|----------|---|--------|-------------|--------|
|          | <b>2006</b>                             |        | <b>2005</b> |        |
| Hardware | \$ 607,494                              | 87.7%  | \$ 369,778  | 79.7%  |
| Software | 85,376                                  | 12.3%  | 93,968      | 20.3%  |
|          | \$ 692.870                              | 100.0% | \$ 463,746  | 100.0% |

Our hardware segment revenues increased 64.3% from the prior year to \$607.5 million. This increase is primarily attributable to the additional revenues related to our Helix and Synetics acquisitions along with higher demand for semiconductor capital equipment during fiscal year 2006. Our software segment revenues decreased 9.1% from the prior year to \$85.4 million. The decrease is primarily attributable to lower market demand for our software products. We expect fiscal 2007 total hardware revenues to increase over 2006 due to the inclusion of Helix and Synetics for a full year, although there are indications that demand for semiconductor capital equipment may soften in the later half of fiscal 2007.

Gross margins increased to 35.3% for fiscal 2006 from 34.5% in the prior year. The increase is primarily attributable to higher overhead absorption due to higher sales volumes, improved product mix and the result of various cost reduction measures. We expect our gross margins to continue to increase in the near term as a result of new product introductions and material cost reduction initiatives.

We recorded income from continuing operations of \$25.8 million or \$0.36 per diluted share in fiscal 2006 compared to a loss from continuing operations of \$8.1 million or \$0.18 per diluted share in fiscal 2005. This improvement is the result of higher revenues and gross margins, lower restructuring charges and higher interest income. We generated \$65.2 million of cash from operations in fiscal year 2006, compared to a cash flow from operations of \$31.1 million in fiscal 2005. At September 30, 2006, we had cash, cash equivalents and marketable securities aggregating \$191.4 million.

**Recent Developments**

On July 11, 2005, we entered into an Agreement and Plan of Merger (the *Merger Agreement*) with Helix Technology Corporation ( *Helix* ), a Delaware corporation and Mt. Hood Corporation ( *Mt. Hood* ), a newly-formed Delaware corporation and a direct wholly-owned subsidiary of the Company. This acquisition closed on October 26, 2005. Under the terms of the Merger Agreement, Mt. Hood merged (the *Merger*) with and into Helix, with Helix continuing as the surviving corporation. Each share of Helix common stock, par value \$1.00 per share, other than shares held by Helix as treasury stock and shares held by the Company or Mt. Hood, was cancelled and extinguished and automatically converted into 1.11 ( *Exchange Ratio* ) shares of the Company's common stock. In addition, we assumed all options then outstanding under Helix's existing equity incentive plans, each of which is now exercisable into a number of shares of the Company's common stock (and at an exercise price) adjusted to reflect the Exchange Ratio. The Helix acquisition is valued at 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 cash of \$10.2 million. This

transaction qualified as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986. Helix was a leader in the development, manufacture, and application of innovative vacuum technology solutions for the semiconductor, data storage, and flat panel display markets. The acquisition of Helix enables us to better serve our current market, increase our addressable market, reduce the volatility that both businesses have historically faced and position us to enhance our financial performance.

On May 8, 2006 we entered into an Agreement and Plan of Merger (the Merger Agreement ) with Synetics Solutions Inc. ( Synetics ). We completed our 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 manufacturing solutions for the North American

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semiconductor equipment industry. The Synetics acquisition is valued at \$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.

Also on May 8, 2006, we entered into 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. YBA began operations on September 21, 2006.

On November 3, 2006, we entered into a definitive agreement to sell our Software Division to Applied Materials for \$125 million. We expect to close this transaction during the second fiscal quarter of 2007. We are selling our software division in order to focus on our core semiconductor-related hardware businesses. We expect to operate in one segment, hardware, in fiscal 2007. We expect to recognize a gain on disposal of the software division and to reclassify this division as discontinued operations in fiscal 2007.

## **Related Parties**

On June 11, 2001, we appointed Joseph R. Martin to our Board of Directors. Mr. Martin served as a director of Fairchild Semiconductor International, Inc. (Fairchild), one of our customers, until May 3, 2006. Accordingly, Fairchild is considered a related party for the period from June 11, 2001 through May 3, 2006. Revenues from Fairchild from October 1, 2005 to March 31, 2006 were approximately \$205,000 and for the years ended September 30, 2005 and 2004 were approximately \$319,000, and \$409,000, respectively. The amounts due from Fairchild included in accounts receivable at March 31, 2006 and September 30, 2005 were \$40,000 and \$33,000, respectively.

Related party transactions and amounts included in accounts receivable and revenue are on standard pricing and contractual terms and manner of settlement for products and services of similar types and at comparable volumes.

## **Critical Accounting Policies and Estimates**

The preparation of the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, goodwill, income taxes, warranty obligations, the adequacy of restructuring reserves and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions both in general and specifically in relation to the semiconductor industry, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. As discussed in the year over year comparisons below, actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

### ***Revenues***

Product revenues are associated with the sale of hardware systems and components as well as software licenses. Service revenues are associated with hardware-related field service, training, software maintenance and software-related consulting and integration services.

Revenue from product sales that do not include significant customization is recorded upon delivery and transfer of risk of loss to the customer provided there is evidence of an arrangement, fees are fixed or determinable, collection of the related receivable is reasonably assured and, if applicable, customer acceptance criteria have been successfully demonstrated. Customer acceptance provisions include final testing and acceptance carried out prior to shipment. These pre-shipment testing and acceptance procedures ensure that the product meets the published specification requirements before the product is shipped. In the limited situations where the arrangement contains extended payment terms, revenue is recognized as the payments become due. Shipping terms are customarily FCA

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shipping point. Amounts charged to customers for costs incurred for shipping and handling are credited to cost of revenues where the associated costs are charged. When significant on site customer acceptance provisions are present in the arrangement, revenue is recognized upon completion of customer acceptance testing.

Revenue from the sale of off-the-shelf software licenses is recognized upon delivery to the customer provided there is evidence of an arrangement, fees are fixed or determinable, collection of the related receivable is probable, and there are no unusual acceptance criteria or extended payment terms. If the arrangement contains acceptance criteria or testing, then revenue is recognized upon acceptance or the successful completion of the testing. If the arrangement contains extended payment terms, revenue is recognized as the payments become due. Revenue related to post-contract support is deferred and recognized ratably over the contract period.

For tailored software contracts, we provide significant consulting services to tailor the software to the customer's environment. If we are able to reasonably estimate the level of effort and related costs to complete the contract, we recognize revenue using the percentage-of-completion method, which compares costs incurred to total estimated project cost. Revisions in revenue and cost estimates are recorded in the period in which the facts that require such revisions become known. If our ability to complete the tailored software is uncertain or if we cannot reasonably estimate the level of effort and related costs, completed contract accounting is applied. Losses, if any, are provided for in the period in which such losses are first identified by management. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. For maintenance contracts, service revenue is deferred based on vendor specific objective evidence of its fair value and is recognized ratably over the term of the maintenance contract. Deferred revenue primarily relates to services and maintenance agreements and billings in excess of revenue recognized on long term contracts accounted for using the percentage-of-completion method and contracts awaiting final customer acceptance.

In transactions that include multiple products and/or services, such as tailored software arrangements, described above, or software sales with post-contract support, we allocate the sales value among each of the elements based on their relative fair values and recognize such revenue when each element is delivered. If these relative fair values are not known, the Company uses the residual method to recognize revenue from arrangements with one or more elements to be delivered at a future date, when evidence of the fair value of all undelivered elements exists. Under the residual method, the fair value of any the undelivered elements at the date of delivery, such as post-contract support, are deferred and the remaining portion of the total arrangement fee is recognized as revenue. The Company determines fair value of undelivered services based on the prices that are charged when the same element is sold separately to customers.

### ***Intangible Assets and Goodwill***

We have made a number of acquisitions in previous years, and as a result, identified significant intangible assets and generated significant goodwill. Intangible assets are valued based on estimates of future cash flows and amortized over their estimated useful life. Goodwill is subject to annual impairment testing as well as testing upon the occurrence of any event that indicates a potential impairment. Intangible assets and other long-lived assets are subject to an impairment test if there is an indicator of impairment. The carrying value and ultimate realization of these assets is dependent upon estimates of future earnings and benefits that we expect to generate from their use. If our expectations of future results and cash flows are significantly diminished, intangible assets and goodwill may be impaired and the resulting charge to operations may be material. When we determine that the carrying value of intangibles or other long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, we use the projected undiscounted cash flow method to determine whether an impairment exists, and then measure the impairment using discounted cash flows. For goodwill, we compare the fair value of our reporting units by measuring discounted cash flows to the book value of the reporting units and measure impairment, if any, as the difference between the resulting implied fair value of goodwill and the recorded book value of the goodwill.

The estimation of useful lives and expected cash flows require us to make significant judgments regarding future periods that are subject to some factors outside of our control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations.

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We have elected to perform our annual goodwill impairment testing as required under FAS 142 on September 30 of each fiscal year. During this process estimates of revenue and expense were developed for each of our segments and as a whole based on internal as well as external market forecasts. Our analyses indicated no impairment of the goodwill in fiscal 2006 or fiscal 2005. In fiscal 2004, we determined that the implied fair value of the goodwill associated with the SELS division was \$7.4 million less than its book value and recorded a charge to write-down the value of this goodwill in the fourth quarter. This charge has been recorded as a component of the loss from discontinued operations of \$9.5 million for fiscal year 2004.

### ***Accounts Receivable***

We record trade accounts receivable at the invoiced amount. Trade accounts receivables do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance based on historical write-off experience by customer. The Company reviews its allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged off against the allowance when the Company feels it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

### ***Warranty***

We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is estimated by assessing product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required and may result in additional benefits or charges to operations.

### ***Inventory***

We provide reserves for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. We fully reserve for inventories and noncancelable purchase orders for inventory deemed obsolete. We perform periodic reviews of all inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand, based upon sales and marketing inputs through our planning systems. If estimates of demand diminish further or actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

### ***Deferred Taxes***

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event we determine that we would be able to realize our deferred tax assets in excess of their net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we subsequently determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

### ***Stock-Based Compensation***



Prior to October 1, 2005, our employee stock compensation plans were accounted for in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) and related interpretations. Under this method, no compensation expense was recognized as long as the exercise price equaled or exceeded the market price of the underlying stock on the measurement date of the grant. The Company elected

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the disclosure-only alternative permitted under SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ), as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148 ), for fixed stock-based awards to employees.

On December 23, 2004, the Company accelerated the vesting of certain unvested stock options awarded to employees, officers and other eligible participants under the Company's various stock option plans, other than its 1993 Non-Employee Director Stock Option Plan. As such, the Company fully vested options to purchase 1,229,239 shares of the Company's common stock with exercise prices greater than or equal to \$24.00 per share. The acceleration of the vesting of these options resulted in a charge based on generally accepted accounting principles of approximately \$1.0 million. We took this action because it produced a more favorable impact on our results from operations in light of the effective date of SFAS 123R, which took place in our first fiscal quarter of 2006.

As of October 1, 2005, the Company adopted 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. The fair value of restricted stock is determined based on the number of shares granted and the excess of the quoted price of the Company's common stock over the exercise price of the restricted stock, and the fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with our valuation techniques previously utilized for options in footnote disclosures required under SFAS 123, as amended by SFAS 148. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires significant judgment. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates. Prior periods have not been restated to incorporate the stock-based compensation charge.

**Year Ended September 30, 2006, Compared to Year Ended September 30, 2005**

***Revenues***

We reported revenues of \$692.9 million for the year ended September 30, 2006, compared to \$463.7 million in the previous year, a 49.4% increase. The increase reflects the additional revenues of \$183.3 million and \$23.7 million related to the Helix and Synetics acquisitions respectively, along with higher revenues related to our legacy Brooks hardware segment of \$30.8 million due to higher demand for semiconductor capital equipment experienced in fiscal 2006, offset by lower revenues from our software segment of \$8.6 million. The decrease in our software revenues is reflective of reduced demand for software products and tailored software projects from the prior year.

Our hardware segment reported revenues of \$607.5 million in the year ended September 30, 2006, an increase of 64.3% from the prior year. This increase reflects the additional revenues of \$183.3 million and \$23.7 million related to the Helix and Synetics acquisitions respectively, along with higher revenues related to our legacy Brooks hardware segment of \$30.8 million due to higher demand for semiconductor capital equipment experienced in fiscal 2006.

Our software segment reported revenues of \$85.4 million, a 9.1% decrease from \$94.0 million in the prior year. The decrease is primarily attributable to lower software license sales of \$2.6 million driven by reduced market demand, along with lower revenues from tailored software services project of \$6.7 million, offset by higher revenues of \$0.7 million from software maintenance contracts.

Product revenues increased \$176.2 million, or 52.1%, to \$514.3 million, in the year ended September 30, 2006, from \$338.1 million in the previous year. This increase is attributable to additional revenues of \$133.1 million and \$22.7 million related to the Helix and Synetics acquisitions respectively, along with higher revenues of legacy Brooks hardware of \$23.0 million due to increased demand for semiconductor capital equipment in fiscal 2006, offset by

lower software license revenues of \$2.6 million reflective of industry trends of decreased demand for software products in fiscal 2006. Product revenues associated with our hardware segment increased by 57.7% from fiscal 2005 levels, while product revenues from our software segment decreased by 9.2%. Service revenues

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increased \$52.9 million, or 42.1%, to \$178.6 million. This increase is attributable to additional revenues of \$50.2 million and \$1.0 million related to the Helix and Synetics acquisitions respectively, along with higher revenues of legacy Brooks hardware services of \$7.7 million due to higher demand for spares and additional revenues from new service contracts, offset by lower software services revenues of \$6.0 million primarily due to reduced activity on tailored software projects.

Revenues outside the United States were \$283.3 million, or 40.9% of total revenues, and \$223.1 million, or 48.1% of total revenues, in the years ended September 30, 2006 and 2005, respectively. We expect that foreign revenues will continue to account for a significant portion of total revenues.

Deferred revenue of \$26.1 million at September 30, 2006 consisted of \$13.2 million related to deferred maintenance contracts and \$12.9 million related to revenues deferred for percentage-of-completion method arrangements and contracts awaiting final customer acceptance.

***Gross Margin***

Gross margin increased to \$244.8 million or 35.3% for the year ended September 30, 2006, compared to \$160.1 million or 34.5% for the previous year. This overall increase in gross margin reflects the additional gross margin from the Helix acquisition of \$55.8 million, plus the additional gross margin from the Synetics acquisition of \$4.2 million, plus higher gross margin of \$26.9 million associated with the legacy Brooks hardware segment from higher revenues, better overhead absorption and improved product mix, offset by reduced gross margin of \$2.2 million associated with the legacy Brooks software segment from lower revenues. The overall increase in the gross margin percentage reflects the impact of cost reduction initiatives, favorable product mix, and greater overhead absorption associated with the legacy Brooks hardware and software businesses along with slightly higher margins associated with the Helix business, offset by the lower margins associated with Synetics business as well as the write-off of the inventory step-up totaling \$11.6 million associated with Helix and Synetics acquisition and the amortization of completed technology associated with these acquisitions totaling \$8.1 million in fiscal 2006.

Our hardware segment gross margin increased to \$186.7 million or 30.7% in the year ended September 30, 2006, from \$99.8 million or 27.0% in the prior year. This increase reflects the additional gross margin of \$55.8 million related to the Helix acquisition, \$4.2 million of additional gross margin related to the Synetics acquisition, along with higher margin on higher revenues from legacy Brooks hardware. The additional gross margin related to the Helix acquisition is net of a \$11.2 million charge to write-off the step-up in inventory associated with the acquisition, a charge of \$8.0 million for the amortization of completed technology acquired in the Helix transaction, and \$1.3 million of additional costs incurred to bring our new Mexico manufacturing operations on line. The additional gross margin related to the Synetics acquisition is net of a \$0.4 million charge to write-off the step-up in inventory associated with the acquisition, and a charge of \$0.2 million for the amortization of completed technology acquired in the Synetics transaction. Our software segment's gross margin for the year ended September 30, 2006, decreased to \$58.1 million or 68.1%, compared to \$60.4 million or 64.2% in the prior year. The decrease in gross margin is primarily attributable to lower software license sales, offset by reduced costs realized by our cost reduction program.

Gross margin on product revenues was \$168.7 million or 32.8% for the year ended September 30, 2006, compared to \$99.0 million or 29.3% for the prior year. The increase in product margins is primarily attributable to additional margin of \$36.8 million related to the Helix acquisition, and \$3.9 million of additional margin associated with the Synetics acquisition, along with higher margin from the legacy Brooks hardware products of \$30.6 million, offset by lower margin from software products of \$1.6 million.

Gross margin on service revenues was \$76.1 million or 42.6% for the year ended September 30, 2006, compared to \$61.1 million or 48.6% in the previous year. The increase is primarily attributable to incremental gross profit of

\$19.0 million, or 37.8%, from Helix customer support services, additional gross margin of \$0.3 million from Synetics customer support services, offset by lower margin from legacy Brooks hardware-related services of \$3.7 million and lower profit of \$0.6 million on software-related services.

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***Research and Development***

Research and development expenses for the year ended September 30, 2006, were \$70.7 million, an increase of \$7.6 million, compared to \$63.1 million in the previous year. Research and development expenses decreased as a percentage of revenues, to 10.2%, from 13.6% in the prior year. The increase in absolute spending is primarily attributable to the additional spending of \$9.3 million and \$0.9 million related to the Helix and Synetics acquisition respectively, offset by lower spending in our legacy Brooks hardware and software businesses. The decrease in absolute legacy Brooks spending and the overall decrease in R&D spending as a percentage of revenue is the result of our continued efforts to control costs and focus our development activities.

***Selling, General and Administrative***

Selling, general and administrative expenses were \$141.0 million for the year ended September 30, 2006, an increase of \$56.2 million, compared to \$84.8 million in the prior year. Selling, general and administrative expenses increased as a percentage of revenues, to 20.4% in the year ended September 30, 2006, from 18.3% in the previous year. The increase in absolute spending is primarily attributable to the additional spending of \$30.3 million and \$2.0 million related to the Helix and Synetics acquisitions respectively, additional amortization of various intangible assets of \$3.8 million and \$0.4 million related to the Helix and Synetics acquisitions respectively, higher management incentive costs of \$7.4 million, higher legal expenses of \$2.6 million mostly associated with the ITI and Blueshift litigation matters, \$4.8 million of additional costs incurred to conduct our review of prior years stock option compensation, and the \$1.3 million write-off of the remaining depreciation of a sales management application recorded in the quarter ended December 31, 2005 which was phased out of use.

***Restructuring and Acquisition-related Charges***

We recorded a charge to operations of \$5.3 million in the year ended September 30, 2006. This charge, which consists of \$2.0 million of excess facilities charges primarily related to a vacant facility in Billerica Massachusetts due to a longer period than initially estimated to sub-lease the facility, \$2.4 million of severance costs associated with the termination of approximately 40 legacy Brooks employees worldwide in sales, service, operations and administrative functions, whose positions were made redundant as a result of the Helix acquisition and further downsizing in our software segment, and \$1.8 million for retention bonuses earned in the period by employees who have been notified of their termination in the current and prior periods, offset by the \$0.9 million reversal of previously accrued termination costs to employees who will no longer be terminated or whose termination was settled at a reduced cost. The accruals for workforce reductions are expected to be paid over the next twelve months. We estimate that salary and benefit savings as a result of these actions will be approximately \$4.3 million annually. The impact of these cost reductions on our liquidity is not significant, as these cost savings are expected to yield actual cash savings within twelve months.

We recorded a charge to continuing operations of \$16.5 million in the year ended September 30, 2005, of which \$13.3 million related to workforce reductions of approximately 270 employees worldwide and \$3.2 million to excess facilities charges. Workforce reduction charges included \$4.3 million for headcount reductions of approximately 100 employees associated with our software segment, \$3.6 million for reductions of approximately 65 employees in our Jena, Germany facility and \$5.4 million related to various other actions undertaken in fiscal 2005. Excess facilities charges of \$3.2 million consisted of excess facilities identified in fiscal 2005 that were recorded to recognize the expected amount of the remaining lease obligations. Of the \$3.2 million of facilities charges, \$1.5 million represents an additional accrual on a previous vacated facility due to a longer period than initially estimated to sub-lease the facility. This revision, including lower estimates of expected sub-rental income over the remainder of the lease terms, was based on management's evaluation of the rental space available. The balance of these excess facilities charges primarily related to excess and abandoned facilities in Toronto Canada, Jena Germany, Austin Texas, and Livingston Scotland.

We also recorded a charge of \$1.0 million in fiscal year 2005 for workforce reductions of approximately 25 employees related to our discontinued SELS division, which is included in the loss from discontinued operations.

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***Interest Income and Expense***

Interest income increased by \$4.4 million, to \$13.7 million, in the year ended September 30, 2006, from \$9.3 million the previous year. This increase is due primarily to higher average cash balances in fiscal 2006 available for investment. We recorded interest expense of \$9.4 million in fiscal year 2006 compared to \$9.5 million in the previous year. This expense primarily relates to the 4.75% Convertible Subordinated Notes which were paid off in the quarter ended September 30, 2006. Interest expense of \$9.4 million in fiscal year 2006 includes the write-off of the balance of unamortized debt issuance costs of \$1.6 million recorded in the fourth quarter.

***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 \$1.0 million in the year ended September 30, 2006.

***Other (Income) Expense***

Other expense, net of \$3.2 million for the year ended September 30, 2006 consisted of the accrual of \$5.0 million related to various legal contingencies and foreign exchanges losses of \$0.5 million, offset by the receipt of \$2.0 million of principal repayment on a note that had been previously written off, and a gain of \$0.3 million on the sale of other assets. Other income, net of \$1.8 million for the year ended September 30, 2005 consisted primarily of the receipt of principal repayments on a note that had been previously written off, foreign exchange gains, and gain on the sales of other assets.

***Income Tax Provision***

We recorded an income tax provision of \$4.7 million in the year ended September 30, 2006 and an income tax provision of \$5.2 million in the year ended September 30, 2005. The tax provision recorded in fiscal 2006 and 2005 is attributable to foreign income and withholding taxes. We continued to provide a full valuation allowance for our net deferred tax assets at September 30, 2006 and 2005, 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. 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 operations for our discontinued SELS business of \$0.1 million for the year ended September 30, 2006, compared to a loss of \$3.5 million in the previous year. The income in fiscal year 2006 relates to maintenance revenues earned during the year that had previously been deferred, while the loss in fiscal year 2005 reflects the winding down of this business.



**Year Ended September 30, 2005, Compared to Year Ended September 30, 2004**

***Revenues***

We reported revenues of \$463.7 million for the year ended September 30, 2005, compared to \$535.1 million in the previous year, a 13.3% decrease. The decrease is consistent with and reflective of the lower demand for semiconductor capital equipment experienced in fiscal 2005.

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Our hardware segment reported revenues of \$369.8 million in the year ended September 30, 2005, a decrease of 11.0% from the prior year. This decrease reflects the lower demand for semiconductor capital equipment during fiscal year 2005.

Our software segment reported revenues of \$94.0 million, a 21.4% decrease from \$119.6 million in the prior year. The decrease is primarily attributable to lower software license sales driven by reduced market demand. Included in the March 31, 2004 quarter we recognized \$17.3 million of revenue on a European software services project which had been accounted for on the completed contract basis. Excluding the impact of this contract for fiscal year 2004, software revenues decreased by \$8.3 million or 8.1%. A significant portion of revenue for the software segment relates to maintenance contracts. Maintenance revenues are only slightly affected by an economic downturn, as customers typically continue to use previously purchased software products and renew related maintenance arrangements.

Product revenues decreased \$64.2 million, or 16.0%, to \$338.1 million, in the year ended September 30, 2005, from \$402.3 million in the previous year. This decrease is attributable to reduced demand for our hardware products and software license revenues reflective of industry trends of decreased demand for semiconductor capital equipment in fiscal 2005. Product revenues associated with our hardware segment decreased by 13.2% from fiscal 2004 levels, while product revenues from our software segment decreased by 37.6%. Service revenues decreased \$7.1 million, or 5.4%, to \$125.7 million. This decrease is primarily attributable to the completion and acceptance by the customer of a major European software project for approximately \$17.3 million in the second quarter of fiscal 2004.

Revenues outside the United States were \$223.1 million, or 48.1% of total revenues, and \$262.4 million, or 49.0% of total revenues, in the years ended September 30, 2005 and 2004, respectively.

Deferred revenue of \$22.1 million at September 30, 2005 consisted of \$11.9 million related to deferred maintenance contracts and \$10.2 million related to revenues deferred for percentage-of-completion method arrangements and contracts awaiting final customer acceptance.

## ***Gross Margin***

Gross margin decreased to \$160.1 million or 34.5% for the year ended September 30, 2005, compared to \$199.7 million or 37.3% for the previous year. Our hardware segment gross margin decreased to \$99.8 million or 27.0% in the year ended September 30, 2005, from \$130.1 million or 31.3% in the prior year. The decrease is primarily attributable to reduced overhead absorption due to reduced sales volumes. Our software segment's gross margin for the year ended September 30, 2005, decreased to \$60.4 million or 64.2%, compared to \$69.5 million or 58.2% in the prior year. The decrease in gross margin is primarily attributable to lower software license sales. The increase in the gross margin as a percentage of revenue primarily reflects the impact of lower gross margins realized on the \$17.3 million of software project revenue recognized upon completion and acceptance by the customer in the second quarter of fiscal 2004.

Gross margin on product revenues was \$99.0 million or 29.3% for the year ended September 30, 2005, compared to \$157.4 million or 39.1% for the prior year. The decrease in product margins is primarily attributable to reduced overhead absorption due to reduced sales volumes.

Gross margin on service revenues was \$61.1 million or 48.6% for the year ended September 30, 2005, compared to \$42.3 million or 31.9% in the previous year. The increase is primarily the result of the higher margins on hardware segment services coupled with the impact of lower gross margins realized on the \$17.3 million software project revenue discussed above.

***Research and Development***

Research and development expenses for the year ended September 30, 2005, were \$63.1 million, a decrease of \$3.2 million, compared to \$66.3 million in the previous year. Research and development expenses increased as a percentage of revenues, to 13.6%, from 12.4% in the prior year. The decrease in absolute spending is primarily the result of our cost reduction actions, while the increase as a percentage of revenue reflects the lower revenue levels against which these costs were measured.

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***Selling, General and Administrative***

Selling, general and administrative expenses were \$84.8 million for the year ended September 30, 2005, a decrease of \$5.4 million, compared to \$90.2 million in the prior year. Selling, general and administrative expenses increased as a percentage of revenues, to 18.3% in the year ended September 30, 2005, from 16.9% in the previous year. The decrease in absolute spending is primarily due to lower expenses for incentive compensation plans of approximately \$5.2 million, while the increase as a percentage of revenue reflects the lower revenue levels against which these costs were measured.

***Restructuring and Acquisition-related Charges***

We recorded a charge to continuing operations of \$16.5 million in the year ended September 30, 2005, of which \$13.3 million related to workforce reductions of approximately 270 employees worldwide and \$3.2 million to excess facilities charges. Workforce reduction charges included \$4.3 million for headcount reductions of approximately 100 employees associated with our software segment, \$3.6 million for reductions of approximately 65 employees in our Jena, Germany facility and \$5.4 million related to various other actions undertaken in fiscal 2005. Excess facilities charges of \$3.2 million consisted of excess facilities identified in fiscal 2005 that were recorded to recognize the expected amount of the remaining lease obligations. These costs were estimated from the time when the space is vacant; costs incurred prior to vacating the facilities were charged to operations. Of the \$3.2 million of facilities charges, \$1.5 million represents an additional accrual on a previous vacated facility due to a longer period than initially estimated to sub-lease the facility. This revision, including lower estimates of expected sub-rental income over the remainder of the lease terms, are based on management's evaluation of the rental space available. The balance of these excess facilities charges primarily relates to excess and abandoned facilities in Toronto Canada, Jena Germany, Austin Texas, and Livingston Scotland.

We also recorded a charge of \$1.0 million in fiscal year 2005 for workforce reductions of approximately 25 employees related to our discontinued SELS division, which is included in the loss from discontinued operations.

We recorded a charge to continuing operations of \$5.4 million in the year ended September 30, 2004, of which \$0.1 million related to acquisitions and \$5.3 million to restructuring costs. The \$0.1 million related to acquisitions is comprised of \$0.1 million of legal and consulting costs to integrate and consolidate acquired entities into our existing entities. The \$5.3 million of restructuring costs consisted of \$3.9 million related to workforce reductions of approximately 60 employees world wide, across all functions of the business and \$1.4 million related to excess facilities. Excess facilities charges of \$1.4 million consisted of \$0.2 million for excess facilities identified in fiscal 2004 that we recorded to recognize the amount of remaining lease obligations. These costs have been estimated from the time when the space is vacant, and there are no plans to utilize the facility. Costs incurred prior to vacating the facilities were charged to operations. Final exit costs for facilities abandoned in previous restructurings amounted to \$0.7 million. The remaining \$0.5 million represents a reevaluation of the assumptions used in determining the fair value of certain lease obligations related to facilities abandoned in a previous restructuring.

***Interest Income and Expense***

Interest income increased by \$4.3 million, to \$9.3 million, in the year ended September 30, 2005, from \$5.0 million the previous year. This increase is due primarily to higher cash balances available for investment. Interest expense of \$9.5 million in each of the years ended September 30, 2005 and 2004 relates primarily to the 4.75% Convertible Subordinated Notes.

***Other (Income) Expense***

Other income, net of \$1.8 million for the year ended September 30, 2005 consisted of the receipt of principal repayments on a note that had been previously written off, foreign exchange gains, and gains on the sales of other assets. Other expense, net of \$0.9 million for the year ended September 30, 2004 consisted primarily of the settlement of an arbitration proceeding in Israel of \$0.7 million and realized losses on foreign currency transactions during the year.

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### ***Income Tax Provision***

We recorded an income tax provision of \$5.2 million in the year ended September 30, 2005 and an income tax provision of \$8.1 million in the year ended September 30, 2004. The tax provision recorded in fiscal 2005 and 2004 is attributable to foreign income and withholding taxes. We continued to provide a full valuation allowance for our net deferred tax assets at September 30, 2005 and 2004, 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. If we generate future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed and a corresponding increase in net income would be reported in future periods.

### ***Discontinued Operations***

We recorded a loss from operations for our discontinued SELS business of \$3.5 million for the year ended September 30, 2005, compared to a loss of \$9.5 million in the previous year. The reduced loss reflects the winding down of this business in fiscal year 2005, and the \$7.4 million goodwill impairment charge recorded in fiscal year 2004 as previously discussed in Intangible Assets and Goodwill.

### **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 and has historically experienced periodic downturns. In response to these downturns, 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 make estimates of future revenues, results of revenues, results of operations and net cash flows inherently uncertain.

On May 23, 2001, we completed the private placement of \$175.0 million aggregate principal amount of 4.75% Convertible Subordinated Notes due in 2008. Interest on the notes was paid on June 1 and December 1 of each year. The notes were scheduled to mature on June 1, 2008. We did not file our quarterly report on Form 10-Q for the period ended March 31, 2006 by the prescribed due date. As a result of this delay, we were not in compliance with our obligation under Section 6.2 of the indenture with respect to our 4.75% Convertible Subordinated Notes due 2008 to file with the SEC all reports and other information and documents which we are required to file with the SEC pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934. On May 15, 2006, we received a notice from holders of more than 25% in aggregate principal amount of notes outstanding that we were in default of Section 6.2 of the indenture based on our failure to file our Form 10-Q. On Friday July 14, 2006, we received a further notice from holders of more than 25% of the aggregate outstanding principal amount of the notes accelerating our obligation to repay the unpaid principal on the notes because our Report on Form 10-Q for the quarter ended March 31, 2006 had not yet been filed. On Monday, July 17, 2006, we paid the outstanding \$175.0 million principal balance to the trustee and subsequently paid all accrued interest. The notes are now retired, having been paid in full.

At September 30, 2006, we had cash, cash equivalents and marketable securities aggregating \$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.

At September 30, 2005, we had cash, cash equivalents and marketable securities aggregating \$357.0 million. This amount was comprised of \$202.5 million of cash and cash equivalents, \$121.6 million of investments in short-term marketable securities and \$32.9 million of investments in long-term marketable securities.

Cash and cash equivalents were \$115.8 million at September 30, 2006, a decrease of \$86.7 million from September 30, 2005. This decrease in cash and cash equivalents was primarily due to the debt repayment of \$175.0 million, the net acquisitions of Helix and Synetics of \$41.4 million and the \$18.0 million used for capital additions, partially offset by cash provided by operations of \$65.2 million, the net sales/maturities of marketable securities of \$83.1 million and \$3.7 million of net proceeds from the issuance of common stock.

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Cash provided by operations was \$65.2 million for the year ended September 30, 2006, and was primarily attributable to our net income of \$25.9 million, adjustments for non-cash depreciation and amortization of \$31.7 million, compensation expense related to common stock and options of \$8.3 million and changes in our net working capital of \$1.2 million, partially offset by discount of marketable securities of \$3.0 million. The \$1.2 million increase in working capital was primarily the result of increased accounts payable levels of \$22.5 million primarily as a result of higher inventory purchases, and increased accrued compensation and benefits of \$9.6 million, primarily associated with variable compensation plans. Offsetting changes in working capital included increased accounts receivable balances of \$20.5 million and net cash outlays of \$10.4 million of restructuring-related spending. The increase in accounts receivable is a result of our increased level of business.

Cash provided by investing activities was \$19.1 million for the year ended September 30, 2006, and is principally comprised of net sales/maturities of marketable securities of \$83.1 million, offset by the net acquisitions of Helix and Synetics of \$41.4 million and \$18.0 million used for capital additions.

Cash used in financing activities was \$171.4 million for the year ended September 30, 2006 from the debt repayment of \$175.0 million partially offset by \$3.6 million due to the issuance of stock under our employee stock purchase plan and the exercise of options to purchase our common stock.

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 September 30, 2006, we had approximately \$0.7 million of letters of credit outstanding.

Our contractual obligations consist of the following (in thousands):

|                                    | <b>Total</b> | <b>Less than<br/>One Year</b> | <b>One to<br/>Three<br/>Years</b> | <b>Four to<br/>Five<br/>Years</b> | <b>Thereafter</b> |
|------------------------------------|--------------|-------------------------------|-----------------------------------|-----------------------------------|-------------------|
| Contractual obligations            |              |                               |                                   |                                   |                   |
| Operating leases continuing        | \$ 36,766    | \$ 7,431                      | \$ 15,987                         | \$ 6,059                          | \$ 7,289          |
| Operating leases exited facilities | 25,330       | 5,180                         | 15,486                            | 4,664                             |                   |
| Purchase commitments               | 99,427       | 99,427                        |                                   |                                   |                   |
| Total contractual obligations      | \$ 161,523   | \$ 112,038                    | \$ 31,473                         | \$ 10,723                         | \$ 7,289          |

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 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, 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. The provisions of this Statement are effective for accounting changes and corrections of errors made in fiscal periods beginning after December 15, 2005.

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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.
- 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.

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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 7A. *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.

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**Item 8. *Financial Statements and Supplementary Data***

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
of Brooks Automation, Inc.:

We have completed integrated audits of Brooks Automation, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2006 and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements**

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Brooks Automation, Inc. and its subsidiaries at September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal 2006.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

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only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Helix Technology Corporation ( Helix ) and Synetics Solutions Inc. ( Synetics ) from its assessment of internal control over financial reporting as of September 30, 2006 because those entities were acquired by the Company in purchase business combinations during fiscal 2006. We have also excluded Helix and Synetics from our audit of internal control over financial reporting. The total assets and total revenues of the acquired businesses of Helix and Synetics represent 18% and 30%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2006.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts  
December 13, 2006



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**BROOKS AUTOMATION, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|  | <b>September 30,<br/>2006</b>                              | <b>September 30,<br/>2005</b> |
|--|--|-------------------------------|
|  | <b>(In thousands, except share<br/>and per share data)</b> |                               |
| <b>ASSETS</b>  |  |                               |
| Current assets   |  |                               |
| Cash and cash equivalents                                      | \$ 115,773   | \$ 202,462                    |
| Marketable securities  | 68,280   | 121,561                       |
| Accounts receivable, net                                       | 127,195  | 77,555                        |
| Inventories, net   | 99,854   | 48,434                        |
| Current assets from discontinued operations                    |  | 55                            |
| Prepaid expenses and other current assets                      | 21,710   | 18,259                        |
| <br>   |  |                               |
| Total current assets   | 432,812  | 468,326                       |
| Property, plant and equipment, net                             | 78,833   | 54,165                        |
| Long-term marketable securities                                | 7,307  | 32,935                        |
| Goodwill   | 351,444  | 62,094                        |
| Intangible assets, net   | 94,067   | 3,828                         |
| Equity investment in Ulvac Cryogenics, Inc.                    | 21,489   |                               |
| Other assets   | 6,625  | 2,732                         |
| <br>   |  |                               |
| Total assets   | \$ 992,577   | \$ 624,080                    |
| <b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY</b> |  |                               |
| Current liabilities  |  |                               |
| Current portion of long-term debt                              | \$ 11  | \$ 12                         |
| Short-term debt  |  | 175,000                       |
| Accounts payable   | 69,392   | 30,820                        |
| Deferred revenue   | 26,119   | 22,143                        |
| Accrued warranty and retrofit costs                            | 11,608   | 9,782                         |
| Accrued compensation and benefits                              | 27,712   | 15,886                        |
| Accrued restructuring costs                                    | 7,254  | 12,171                        |
| Accrued income taxes payable                                   | 17,773   | 17,331                        |
| Current liabilities from discontinued operations               |  | 399                           |
| Accrued expenses and other current liabilities                 | 20,310   | 16,551                        |
| <br>   |  |                               |
| Total current liabilities                                      | 180,179  | 300,095                       |
| Long-term debt   | 2  | 2                             |
| Accrued long-term restructuring                                | 9,289  | 10,959                        |
| Other long-term liabilities                                    | 3,579  | 2,129                         |
| <br>   |  |                               |
| Total liabilities  | 193,049  | 313,185                       |

|   |            |             |
|---|------------|-------------|
| Commitments and contingencies (Note 19)   |            |             |
| Minority interests  | 394        | 1,060       |
| Stockholders' equity  |            |             |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding at September 30, 2006 and 2005, respectively                       |            |             |
| Common stock, \$0.01 par value, 125,000,000 shares authorized, 75,431,592 and 45,434,709 shares issued and outstanding at September 30, 2006 and 2005, respectively | 754        | 454         |
| Additional paid-in capital  | 1,763,247  | 1,307,145   |
| Deferred compensation   |            | (3,493)     |
| Accumulated other comprehensive income  | 15,432     | 11,958      |
| Accumulated deficit   | (980,299)  | (1,006,229) |
| Total stockholders' equity  | 799,134    | 309,835     |
| Total liabilities, minority interests and stockholders' equity  | \$ 992,577 | \$ 624,080  |

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

**Table of Contents****BROOKS AUTOMATION, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | <b>Year Ended September 30,</b>              |             |             |
|---|--|-------------|-------------|
|   | <b>2006</b>                                  | <b>2005</b> | <b>2004</b> |
|   | <b>(In thousands, except per share data)</b> |             |             |
| Revenues  |  |             |             |
| Product   | \$ 514,294                                   | \$ 338,072  | \$ 402,252  |
| Services  | 178,576                                      | 125,674     | 132,801     |
| Total revenues  | 692,870                                      | 463,746     | 535,053     |
| Cost of revenues  |  |             |             |
| Product   | 345,592                                      | 239,024     | 244,894     |
| Services  | 102,494                                      | 64,586      | 90,493      |
| Total cost of revenues  | 448,086                                      | 303,610     | 335,387     |
| Gross profit  | 244,784                                      | 160,136     | 199,666     |
| Operating expenses  |  |             |             |
| Research and development  | 70,671                                       | 63,115      | 66,266      |
| Selling, general and administrative   | 141,032                                      | 84,797      | 90,227      |
| Restructuring charges   | 5,297  | 16,542      | 5,356       |
| Total operating expenses  | 217,000                                      | 164,454     | 161,849     |
| Income (loss) from continuing operations  | 27,784                                       | (4,318)     | 37,817      |
| Interest income   | 13,715                                       | 9,284       | 4,984       |
| Interest expense  | 9,384  | 9,469       | 9,492       |
| Equity in earnings of Ulvac Cryogenics, Inc.  | 985  |             |             |
| Other (income) expense, net   | 3,193  | (1,752)     | 911         |
| Income (loss) from continuing operations before income taxes and minority interests | 29,907                                       | (2,751)     | 32,398      |
| Income tax provision  | 4,732  | 5,204       | 8,053       |
| Income (loss) from continuing operations before minority interests                  | 25,175                                       | (7,955)     | 24,345      |
| Minority interests in income (loss) of consolidated subsidiary                      | (666)  | 141         | 211         |
| Income (loss) from continuing operations  | 25,841                                       | (8,096)     | 24,134      |
| Discontinued operations:  |  |             |             |
| Income (loss) from operations   | 89   | (3,492)     | (9,475)     |
| Loss on disposal  |  | (24)        |             |
| Income (loss) from discontinued operations, net of income taxes                     | 89   | (3,516)     | (9,475)     |

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|  |           |             |           |
|--|-----------|-------------|-----------|
| Net income (loss)  | \$ 25,930 | \$ (11,612) | \$ 14,659 |
| Basic income (loss) per share from continuing operations     | \$ 0.36   | \$ (0.18)   | \$ 0.56   |
| Basic income (loss) per share from discontinued operations   | 0.00      | (0.08)      | (0.22)    |
| Basic net income (loss) per share                            | \$ 0.36   | \$ (0.26)   | \$ 0.34   |
| Diluted income (loss) per share from continuing operations   | \$ 0.36   | \$ (0.18)   | \$ 0.55   |
| Diluted income (loss) per share from discontinued operations | 0.00      | (0.08)      | (0.22)    |
| Diluted net income (loss) per share                          | \$ 0.36   | \$ (0.26)   | \$ 0.34   |
| Shares used in computing earnings (loss) per share           |           |             |           |
| Basic  | 72,323    | 44,919      | 43,006    |
| Diluted  | 72,533    | 44,919      | 43,573    |

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

**Table of Contents****BROOKS AUTOMATION, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Year ended September 30,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
|  | <b>(In thousands)</b>           |             |             |
| Cash flows from operating activities   |                                 |             |             |
| Net income (loss)  | \$ 25,930                       | \$ (11,612) | \$ 14,659   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                 |             |             |
| Depreciation and amortization  | 31,664                          | 16,351      | 17,541      |
| Impairment of assets   |                                 |             | 7,421       |
| Stock-based compensation   | 8,287                           | 3,640       | 4,824       |
| Discount on marketable securities  | (3,012)                         | (1,936)     |             |
| Amortization of debt issuance costs  | 2,237                           | 839         | 839         |
| Undistributed earnings of joint venture  | (985)                           |             |             |
| Minority interests   | (666)                           | 141         | 211         |
| Loss on disposal of long-lived assets  | 534                             | 178         | 505         |
| Changes in operating assets and liabilities, net of acquired assets and liabilities:     |                                 |             |             |
| Accounts receivable  | (20,466)                        | 47,922      | (53,960)    |
| Inventories  | (1,459)                         | 23,933      | (17,744)    |
| Prepaid expenses and other assets  | 2,575                           | (3,048)     | 8,376       |
| Accounts payable   | 22,513                          | (14,202)    | 17,967      |
| Deferred revenue   | 3,705                           | (12,718)    | (91)        |
| Accrued warranty and retrofit costs  | 540                             | (2,104)     | 231         |
| Accrued compensation and benefits  | 9,553                           | (9,847)     | 10,621      |
| Accrued restructuring costs  | (10,364)                        | 3,300       | (9,123)     |
| Accrued expenses and other liabilities   | (5,394)                         | (9,723)     | 6,578       |
| Net cash provided by operating activities  | 65,192                          | 31,114      | 8,855       |
| Cash flows from investing activities   |                                 |             |             |
| Purchases of property, plant and equipment   | (17,954)                        | (11,704)    | (8,203)     |
| Purchases of intangible assets   | (3,000)                         |             |             |
| Acquisition of Helix Technology Corporation, cash acquired net of expenses               | 8,805                           |             |             |
| Acquisition of Synetics Solutions Inc., net of cash acquired                             | (50,182)                        |             |             |
| Investment in Yaskawa Brooks Automation, Inc. joint venture                              | (1,955)                         |             |             |
| Purchases of marketable securities   | (851,884)                       | (635,683)   | (231,687)   |
| Sale/maturity of marketable securities   | 934,961                         | 618,453     | 169,141     |
| Dividends from equity investment   | 281                             |             |             |
| Proceeds from sale of long-lived assets  |                                 | 1,294       |             |
| Net cash provided by (used in) investing activities                                      | 19,072                          | (27,640)    | (70,749)    |

|   |            |            |            |
|---|------------|------------|------------|
| Cash flows from financing activities                                |            |            |            |
| Payments of short- and long-term debt and capital lease obligations | (175,015)  | (11)       | (98)       |
| Proceeds from issuance of common stock, net of issuance costs       | 3,659      | 5,313      | 130,203    |
| Net cash provided by (used in) financing activities                 | (171,356)  | 5,302      | 130,105    |
| Effects of exchange rate changes on cash and cash equivalents       | 403        | 405        | 71         |
| Net increase (decrease) in cash and cash equivalents                | (86,689)   | 9,181      | 68,282     |
| Cash and cash equivalents, beginning of year                        | 202,462    | 193,281    | 124,999    |
| Cash and cash equivalents, end of year                              | \$ 115,773 | \$ 202,462 | \$ 193,281 |
| <b>Supplemental disclosures:</b>                                    |            |            |            |
| Cash paid during the year for interest                              | \$ 9,932   | \$ 8,603   | \$ 8,653   |
| Cash paid during the year for income taxes, net of refunds          | \$ 6,280   | \$ 3,696   | \$ 2,237   |
| Non-cash transactions:  |            |            |            |
| Acquisition of Helix Technology, net of transaction costs           | \$ 447,949 | \$         | \$         |

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

Table of Contents**BROOKS AUTOMATION, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

|   | Common<br>Stock<br>Shares         | Common<br>Stock<br>at<br>par<br>Value | Additional<br>Paid-In<br>Capital | Deferred<br>Compensation | Comprehensive<br>Income<br>(Loss) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|---|-----------------------------------|---------------------------------------|----------------------------------|--------------------------|-----------------------------------|---|------------------------|----------------------------------|
|   | (In thousands, except share data) |                                       |                                  |                          |                                   |   |                        |                                  |
| <b>Balance September 30, 2013</b>                   | 37,266,181                        | \$ 373                                | \$ 1,165,427                     | \$ (6,084)               |                                   | \$ 12,390   | \$ (1,009,276)         | \$ 162,833                       |
| Shares issued under stock option and purchase plans | 487,161                           | 5                                     | 5,917                            |                          |                                   |   |                        | 5,927                            |
| Common stock offering                               | 6,900,000                         | 69                                    | 124,213                          |                          |                                   |   |                        | 124,282                          |
| Common stock issued in acquisitions                 | 38,502                            |                                       | 1,181                            |                          |                                   |   |                        | 1,181                            |
| Deferred compensation, net of forfeitures           |                                   |                                       | (188)                            | 188                      |                                   |   |                        |                                  |
| Amortization of deferred compensation               |                                   |                                       |                                  | 4,052                    |                                   |   |                        | 4,052                            |
| Comprehensive income (loss):                        |                                   |                                       |                                  |                          |                                   |   |                        |                                  |
| Net income  |                                   |                                       |                                  |                          | \$ 14,659                         |   | 14,659                 | 14,659                           |
| Currency translation adjustments                    |                                   |                                       |                                  |                          | 928                               | 928   |                        | 928                              |
| Realized loss on marketable securities              |                                   |                                       |                                  |                          | (959)                             | (959)   |                        | (959)                            |
| Comprehensive income                                |                                   |                                       |                                  |                          | \$ 14,628                         |   |                        | 14,628                           |
| <b>Balance September 30, 2014</b>                   | 44,691,844                        | 447                                   | 1,296,550                        | (1,844)                  |                                   | 12,359  | (994,617)              | 312,895                          |
| Shares issued under stock option and purchase plans | 708,432                           | 7                                     | 5,306                            |                          |                                   |   |                        | 5,313                            |
| Common stock issued in acquisitions                 | 34,433                            |                                       | 628                              |                          |                                   |   |                        | 628                              |
| Deferred compensation, net of forfeitures           |                                   |                                       | 4,661                            | (4,661)                  |                                   |   |                        |                                  |
| Amortization of deferred compensation               |                                   |                                       |                                  | 3,012                    |                                   |   |                        | 3,012                            |
| Comprehensive income (loss):                        |                                   |                                       |                                  |                          |                                   |   |                        |                                  |

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|  |            |        |              |         |  |             |           |              |            |
|--|------------|--------|--------------|---------|--|-------------|-----------|--------------|------------|
| Net loss   |            |        |              |         |  | \$ (11,612) |           | (11,612)     | (11,612)   |
| Currency translation adjustments                                   |            |        |              |         |  | 353         | 353       |              | 353        |
| Realized loss on marketable securities                             |            |        |              |         |  | (754)       | (754)     |              | (754)      |
| Comprehensive loss   |            |        |              |         |  | \$ (12,013) |           |              |            |
| <b>Balance September 30, 2015</b>                                  | 45,434,709 | 454    | 1,307,145    | (3,493) |  |             | 11,958    | (1,006,229)  | 309,832    |
| Shares issued under stock option and purchase plans                | 975,519    | 10     | 3,649        |         |  |             |           |              | 3,659      |
| Common stock issued in acquisitions                                | 29,021,364 | 290    | 447,659      |         |  |             |           |              | 447,949    |
| Classification of deferred compensation upon adoption of SFAS 123R |            |        | (3,493)      | 3,493   |  |             |           |              |            |
| Stock-based compensation   |            |        | 8,287        |         |  |             |           |              | 8,287      |
| Comprehensive income (loss):                                       |            |        |              |         |  |             |           |              |            |
| Net income   |            |        |              |         |  | \$ 25,930   |           | 25,930       | 25,930     |
| Currency translation adjustments                                   |            |        |              |         |  | 2,626       | 2,626     |              | 2,626      |
| Realized gain on marketable securities                             |            |        |              |         |  | 848         | 848       |              | 848        |
| Comprehensive income   |            |        |              |         |  | \$ 29,404   |           |              |            |
| <b>Balance September 30, 2016</b>                                  | 75,431,592 | \$ 754 | \$ 1,763,247 | \$      |  |             | \$ 15,432 | \$ (980,299) | \$ 799,132 |

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



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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of the Business**

Brooks Automation, Inc. ( Brooks or the Company ) is a leading supplier of technology products and solutions primarily serving the worldwide semiconductor market. Brooks supplies hardware, software and services to both chip manufacturers and original equipment manufacturers, or OEMs, who make semiconductor device manufacturing equipment. Brooks has 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 Brooks core business addresses the increasingly complex automation and integrated subsystems requirements of the global semiconductor industry, Brooks provides solutions for a number of related industries, including the flat panel display manufacturing, data storage and certain other industries which have complex manufacturing environments.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany accounts and transactions are eliminated. Equity investments in which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are associated with accounts receivable, inventories, intangible assets, goodwill, deferred income taxes and warranty obligations. Although the Company regularly assesses these estimates, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known.

***Foreign Currency Translation***

Some transactions of the Company and its subsidiaries are made in currencies different from their functional currency. Foreign currency gains (losses) on these transactions or balances are recorded in Other (income) expense, net when incurred. Net foreign currency transaction gains (losses) included in income (loss) before income taxes and minority interest totaled \$(0.5) million, \$0.4 million and \$(0.4) million for the years ended September 30, 2006, 2005 and 2004, respectively. For non-U.S. subsidiaries, assets and liabilities are translated at period-end exchange rates, and income statement items are translated at the average exchange rates for the period. The local currency for all foreign subsidiaries is considered to be the functional currency and, accordingly, translation adjustments are reported in Accumulated other comprehensive income . Foreign currency translation adjustments are one of the components added to the Company s net income (loss) in the calculation of comprehensive net income (loss).

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. At September 30, 2006 and 2005, cash equivalents were \$16.5 million and \$111.3 million, respectively. Cash

equivalents are held at fair value.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade receivables and temporary and long-term cash investments in treasury bills and commercial paper. The

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company restricts its investments to repurchase agreements with major banks, U.S. government and corporate securities, and mutual funds that invest in U.S. government securities, which are subject to minimal credit and market risk. The Company's customers are concentrated in the semiconductor industry, and relatively few customers account for a significant portion of the Company's revenues. The Company's top twenty largest customers account for approximately 55% of revenues. The Company regularly monitors the creditworthiness of its customers and believes that it has adequately provided for exposure to potential credit losses.

***Accounts Receivable and Allowance for Doubtful Accounts***

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance based on historical write-off experience by customer. The Company reviews its allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged off against the allowance when the Company feels it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

***Inventories***

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method. The Company provides inventory reserves for excess, obsolete or damaged inventory based on changes in customer demand, technology and other economic factors.

***Fixed Assets and Impairment of Long-lived Assets***

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method. Depreciable lives are summarized below:

|                                 |               |
|---------------------------------|---------------|
| Buildings                       | 20 - 40 years |
| Computer equipment and software | 2 - 6 years   |
| Machinery and equipment         | 2 - 10 years  |
| Furniture and fixtures          | 3 - 10 years  |

Leasehold improvements and equipment held under capital leases are amortized over the shorter of their estimated useful lives or the term of the respective leases. Equipment used for demonstrations to customers is included in machinery and equipment and is depreciated over its estimated useful life. Repair and maintenance costs are expensed as incurred.

The Company periodically evaluates the recoverability of long-lived assets, including its intangible assets, whenever events and changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. This periodic review may result in an adjustment of estimated depreciable lives or an asset impairment. When indicators of impairment are present, the carrying values of the asset are evaluated in relation to their operating performance and future undiscounted cash flows of the underlying business. If the future undiscounted cash flows are less than their

book value, an impairment exists. The impairment is measured as the difference between the book value and the fair value of the underlying asset. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

When an asset is retired, the cost of the asset disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is included in the determination of operating profit (loss).

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Intangible Assets and Goodwill***

Patents include capitalized direct costs associated with obtaining patents as well as assets that were acquired as a part of purchase business combinations. Capitalized patent costs are amortized using the straight-line method over the estimated economic life of the patents. As of September 30, 2006 and 2005, the net book value of the Company's patents was \$3.1 million and \$0.2 million, respectively.

Goodwill represents the excess of purchase price over the fair value of net tangible and identifiable intangible assets of the businesses the Company acquired. The Company performs an annual impairment test of its goodwill as required under the provisions of FAS 142 on September 30 of each fiscal year unless interim indicators of impairment exist (see Note 6).

The amortizable lives of intangible assets, including those identified as a result of purchase accounting, are summarized as follows:

|                            |              |
|----------------------------|--------------|
| Patents                    | 3 - 8 years  |
| Completed technology       | 2 - 10 years |
| License agreements         | 5 years      |
| Trademarks and trade names | 3 - 6 years  |
| Non-competition agreements | 3 - 5 years  |
| Customer relationships     | 4 - 11 years |

***Revenue Recognition***

Product revenues are associated with the sale of hardware systems and components as well as software licenses. Service revenues are associated with hardware-related field service, training, software maintenance and software-related consulting and integration services.

Revenue from product sales that do not include significant customization is recorded upon delivery and transfer of risk of loss to the customer provided there is evidence of an arrangement, fees are fixed or determinable, collection of the related receivable is reasonably assured and, if applicable, customer acceptance criteria have been successfully demonstrated. Customer acceptance provisions include final testing and acceptance carried out prior to shipment. These pre-shipment testing and acceptance procedures ensure that the product meets the published specification requirements before the product is shipped. In the limited situations where the arrangement contains extended payment terms, revenue is recognized as the payments become due. Shipping terms are customarily FCA shipping point. Amounts charged to customers for costs incurred for shipping and handling are credited to cost of revenues where the associated costs are charged. When significant on site customer acceptance provisions are present in the arrangement, revenue is recognized upon completion of customer acceptance testing.

Revenue from the sale of off-the-shelf software licenses is recognized upon delivery to the customer provided there is evidence of an arrangement, fees are fixed or determinable, collection of the related receivable is probable, and there are no unusual acceptance criteria or extended payment terms. If the arrangement contains acceptance criteria or testing, then revenue is recognized upon acceptance or the successful completion of the testing. If the arrangement

contains extended payment terms, revenue is recognized as the payments become due. Revenue related to post-contract support is deferred and recognized ratably over the contract period.

For tailored software contracts, we provide significant consulting services to tailor the software to the customer's environment. If we are able to reasonably estimate the level of effort and related costs to complete the contract, we recognize revenue using the percentage-of-completion method, which compares costs incurred to total estimated project costs. Revisions in revenue and cost estimates are recorded in the period in which the facts that require such revisions become known. If our ability to complete the tailored software is uncertain or if we cannot reasonably estimate the level of effort and related costs, completed contract accounting is applied. Losses, if any, are provided for in the period in which such losses are first identified by management. Generally, the terms of long-term

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contracts provide for progress billing based on completion of certain phases of work. For maintenance contracts, service revenue is deferred based on vendor specific objective evidence of its fair value and is recognized ratably over the term of the maintenance contract. Deferred revenue primarily relates to services and maintenance agreements and billings in excess of revenue recognized on long term contracts accounted for using the percentage-of-completion method and contracts awaiting final customer acceptance.

In transactions that include multiple products and/or services, such as tailored software arrangements, described above, or software sales with post-contract support, we allocate the sales value among each of the elements based on their relative fair values and recognize such revenue when each element is delivered. If these relative fair values are not known, the Company uses the residual method to recognize revenue from arrangements with one or more elements to be delivered at a future date, when evidence of the fair value of all undelivered elements exist. Under the residual method, the fair value of any the undelivered elements at the date of delivery, such as post-contract support, are deferred and the remaining portion of the total arrangement fee is recognized as revenue. The Company determines fair value of undelivered services based on the prices that are charged when the same element is sold separately to customers.

***Warranty***

The Company offers warranties on the sales of certain of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims.

***Research and Development Expenses***

Research and development costs are charged to expense when incurred, except for certain software development costs. Software development costs are expensed prior to establishing technological feasibility and capitalized thereafter until the product is available for general release to customers. Capitalized software development costs are amortized to cost of sales on a product-by-product basis over the estimated lives of the related products, typically three years. The Company did not capitalize any such costs during fiscal 2006, 2005 or 2004.

***Stock-Based Compensation***

***Effect of Adoption of SFAS 123R, Share-Based Payment***

Prior to October 1, 2005, the Company's employee stock compensation plans were accounted for in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. Under this method, no compensation expense was recognized as long as the exercise price equaled or exceeded the market price of the underlying stock on the measurement date of the grant. The Company elected the disclosure-only alternative permitted under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), for fixed stock-based awards to employees.

On December 23, 2004, the Company accelerated the vesting of certain unvested stock options awarded to employees, officers and other eligible participants under the Company's various stock option plans, other than its 1993 Non-Employee Director Stock Option Plan. As such, the Company fully vested options to purchase 1,229,239 shares of the Company's common stock with exercise prices greater than or equal to \$24.00 per share. The acceleration of the

vesting of these options resulted in a charge based on generally accepted accounting principles of approximately \$1.0 million. The Company took this action because it produced a more favorable impact on the Company's results from operations in light of the effective date of SFAS 123R, which took place in the Company's first fiscal quarter of 2006.

As of October 1, 2005, the Company adopted 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



**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

compensation over the service period for awards expected to vest. The fair value of restricted stock is determined based on the number of shares granted and the excess of the quoted price of the Company's common stock over the exercise price of the restricted stock, and the fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with our valuation techniques previously utilized for options in footnote disclosures required under SFAS 123, as amended by SFAS 148. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires significant judgment. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates. Prior periods have not been restated to incorporate the stock-based compensation charge.

The following table reflects compensation expense recorded during the year ended September 30, 2006 in accordance with SFAS 123R (in thousands):

|                              | <b>Year Ended<br/>September 30, 2006</b> |       |
|------------------------------|--|-------|
| Stock options                | \$                                       | 4,769 |
| Restricted stock             |  | 2,714 |
| Employee stock purchase plan |  | 804   |
|                              | \$                                       | 8,287 |

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

For the years ended September 30, 2006, 2005 and 2004, 217,000, 652,250 and 2,486,159 stock options were granted, respectively. The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                         | <b>Year Ended September 30,</b> |             |             |
|-------------------------|---------------------------------|-------------|-------------|
|                         | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Risk-free interest rate | 4.4%                            | 3.3% - 4.0% | 2.6% - 3.3% |
| Volatility              | 55%                             | 65%         | 60%         |
| Expected life (years)   | 4.9                             | 4.0         | 4.0         |
| Dividend yield          | 0%                              | 0%          | 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:

**Year Ended September 30,**

|                         | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|-------------------------|-------------|-------------|-------------|
| Risk-free interest rate | 4.5%        | 3.2%        | 1.6%        |
| Volatility              | 39%         | 39%         | 55%         |
| Expected life           | 6 months    | 6 months    | 6 months    |
| Dividend yield          | 0%          | 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.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Fair Value Disclosures Prior to SFAS 123R Adoption*

The following table provides supplemental information for the years ended September 30, 2005 and 2004 as if stock-based compensation had been computed under SFAS 123 (in thousands, except per share data):

|  | <b>Year Ended<br/>September 30,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2005</b>                         | <b>2004</b> |
| Net income (loss), as reported   | \$ (11,612)                         | \$ 14,659   |
| Add stock-based employee compensation expense included in reported net income (loss) | 3,012                               | 4,052       |
| Deduct pro forma stock-based compensation expense                                    | 24,319                              | 21,889      |
| Pro forma net loss   | \$ (32,919)                         | \$ (3,178)  |
| Earnings (loss) per share  |                                     |             |
| Basic earnings (loss) per share, as reported   | \$ (0.26)                           | \$ 0.34     |
| Diluted earnings (loss) per share, as reported                                       | \$ (0.26)                           | \$ 0.34     |
| Basic loss per share, pro forma  | \$ (0.73)                           | \$ (0.07)   |
| Diluted loss per share, pro forma  | \$ (0.73)                           | \$ (0.07)   |

*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. 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 September 30, 2006, a total of 5,972,077 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.

*Income Taxes*

The Company records income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. The Company's consolidated financial statements contain certain deferred tax assets which have arisen primarily as a result of operating losses, as well as other temporary differences between financial and tax accounting.

Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes, requires the Company to establish a valuation allowance if the likelihood of realization of the deferred tax assets is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against those net deferred tax assets. The Company evaluates the weight of all available evidence to determine whether it is more likely than not that some portion or all of the net deferred income tax assets will not be realized.

***Earnings (Loss) Per Share***

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated based on the weighted average number

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of common shares and dilutive common equivalent shares assumed outstanding during the period. Shares used to compute diluted earnings (loss) per share exclude common share equivalents if their inclusion would have an anti-dilutive effect.

***Fair Value of Financial Instruments***

The Company's financial instruments consist of cash and cash equivalents, investments in long- and short-term debt securities, accounts receivable, accounts payable and accrued expenses. The carrying amounts reported in the balance sheets approximate their fair value at September 30, 2006 and 2005. The Company's financial instruments at September 30, 2005 also included its convertible notes, which were paid in full in July 2006. At September 30, 2005, the estimated fair value of the Company's convertible notes was approximately \$169.3 million compared to the carrying value of \$175.0 million. The estimated fair value of the convertible notes is based on the quoted market price of the convertible notes on September 30, 2005.

***Reclassifications***

Certain reclassifications have been made in the 2005 and 2004 Consolidated Financial Statements to conform to the 2006 presentation.

***Recent 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. The provisions of this Statement are effective for accounting changes and corrections of errors made in fiscal periods beginning after December 15, 2005.

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.

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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.





**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. 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. The Helix business operates in the Company's hardware segment. This transaction qualified as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

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  | 276.8           |
| Other assets  | 20.8            |
| <b>Total assets acquired</b>                            | <b>477.3</b>    |
| Current liabilities                                     | 18.1            |
| Other liabilities                                       | 1.1             |
| <b>Total liabilities assumed</b>                        | <b>19.2</b>     |
| <b>Total purchase price including acquisition costs</b> | <b>\$ 458.1</b> |

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

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. The Synetics business operates in the Company's hardware segment.

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. YBA began operations on September 21, 2006.

The consolidated financial statements include the results of Synetics 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                                       | \$ 19.8     |
| Property, plant and equipment                        | 8.6         |
| Intangible assets                                    | 17.4        |
| Goodwill   | 12.6        |
| Other assets   | 0.1         |
| <br>Total assets acquired                            | <br>58.5    |
| <br>Current liabilities                              | <br>8.3     |
| <br>Total purchase price including acquisition costs | <br>\$ 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 |  |

***Proforma Information of Acquisitions***

The following unaudited proforma information gives effect to the acquisition of Helix and Synetics as if the acquisitions occurred at the beginning of the years presented (in thousands, except per share data):

|                                 | <b>September 30,</b> |             |
|---------------------------------|----------------------|-------------|
|                                 | <b>2006</b>          | <b>2005</b> |
| Revenues                        | \$ 756,325           | \$ 669,377  |
| Net income (loss)               | \$ 20,576            | \$ (36,932) |
| Basic income (loss) per share   | \$ 0.28              | \$ (0.50)   |
| Diluted income (loss) per share | \$ 0.28              | \$ (0.50)   |

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Proforma information above includes adjustments to reflect increased amortization expense, the write-off of the entire fair value step-up in inventory, and a full valuation allowance for deferred tax assets.

**4. Marketable Securities**

The Company invests its cash in marketable debt securities and classifies them as available-for-sale. The Company records these securities at fair value in accordance with Statement of Financial Accounting Standards No. 115,

Accounting for Certain Investments in Debt and Equity Securities ( FAS 115 ). Marketable securities reported as current assets represent investments that mature within one year from the balance sheet date. Long-term marketable securities represent investments with maturity dates greater than one year from the balance sheet date. At the time that the maturity dates of these investments become one year or less, the securities are reclassified to current assets. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders' equity until they are sold. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results.

The following is a summary of marketable securities (included in short and long-term marketable securities in the consolidated balance sheets), including accrued interest receivable, as of September 30, 2006 and 2005 (in thousands):

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|------------|
| <b>September 30, 2006:</b>                  |                   |                              |                               |            |
| U.S. Treasury securities and obligations of |                   |                              |                               |            |
| U.S. government agencies                    | \$ 62,220         | \$ 1                         | \$ (80)                       | \$ 62,141  |
| U.S. corporate securities                   | 5,871             |                              | (54)                          | 5,817      |
| Mortgage-backed securities                  | 3,640             |                              | (110)                         | 3,530      |
| Other debt securities                       | 4,167             |                              | (68)                          | 4,099      |
|   | \$ 75,898         | \$ 1                         | \$ (312)                      | \$ 75,587  |
| <b>September 30, 2005:</b>                  |                   |                              |                               |            |
| U.S. Treasury securities and obligations of |                   |                              |                               |            |
| U.S. government agencies                    | \$ 108,083        | \$ 1                         | \$ (545)                      | \$ 107,539 |
| U.S. corporate securities                   | 29,428            | 12                           | (240)                         | 29,200     |
| Mortgage-backed securities                  | 5,004             |                              | (108)                         | 4,896      |
| Other debt securities                       | 13,140            |                              | (279)                         | 12,861     |
|   | \$ 155,655        | \$ 13                        | \$ (1,172)                    | \$ 154,496 |

Gross realized gains and losses realized on sales of available-for-sale marketable securities included in Other (income) expense in the Consolidated Statements of Operations for the years ended September 30, 2006, 2005 and 2004 are as

follows (in thousands):

|                       | <b>Year Ended September 30,</b> |             |             |
|-----------------------|---------------------------------|-------------|-------------|
|                       | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Gross realized gains  | \$ 226                          | \$          | \$ 148      |
| Gross realized losses |                                 |             | (111)       |
| Net realized gains    | \$ 226                          | \$          | \$ 37       |

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

From April 2004 through September 2005, the Company held its available-for-sale marketable securities until maturity and, as such, did not incur any realized gains or losses.

The fair value of the marketable securities at September 30, 2006, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties (in thousands).

|                                       | <b>Fair Value</b> |
|---------------------------------------|-------------------|
| Due in one year or less               | \$ 68,280         |
| Due after one year through five years | 794               |
| Due after ten years                   | 6,513             |
|                                       | \$ 75,587         |

**5. Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2006 and 2005 were as follows (in thousands):

|  | <b>September 30,</b> |             |
|--|----------------------|-------------|
|  | <b>2006</b>          | <b>2005</b> |
| Buildings and land                             | \$ 44,961            | \$ 40,019   |
| Computer equipment and software                | 67,759               | 62,190      |
| Machinery and equipment                        | 40,584               | 27,572      |
| Furniture and fixtures                         | 14,648               | 12,471      |
| Leasehold improvements                         | 24,233               | 16,093      |
| Construction in progress                       | 5,382                | 2,682       |
|  | 197,567              | 161,027     |
| Less accumulated depreciation and amortization | (118,734)            | (106,862)   |
| Property, plant and equipment, net             | \$ 78,833            | \$ 54,165   |

Depreciation expense was \$17.1 million, \$13.3 million and \$13.8 million for the years ended September 30, 2006, 2005 and 2004, respectively.

In the fourth quarter of fiscal 2005, the Company accelerated the depreciation on its existing Customer Relations Management system which was phased out in December 31, 2005. The impact of this accelerated depreciation was \$1.3 million during the fourth quarter of fiscal 2005.

## 6. Goodwill and Intangible Assets

The Company performs an annual impairment test of its goodwill as required under the provisions of FAS 142 on September 30 of each fiscal year unless interim indicators of impairment exist. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are estimated using a discounted cash flow methodology. Discounted cash flows are based on the businesses' strategic plans and management's best estimate of revenue growth and gross profit by each reporting unit. In the fourth quarter of fiscal year 2005, the Company's equipment automation and factory automation segments were combined into the hardware segment, which reflects how management now evaluates its business (see Note 16).

In fiscal 2004, in connection with a third party letter of intent to purchase the assets of the SELS, which made up the Company's Other segment, the Company assessed the potential impairment of goodwill for this segment (See Note 20). The Company considered the offer in the letter of intent as an indication of fair value. Based on its analysis, the Company determined that the implied fair value of the then Other segment's goodwill was



Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$7.4 million less than its book value and therefore recorded a charge to write-down the value of this goodwill in the fourth quarter, which has been recorded as a component of the loss from discontinued operations for fiscal year 2004. As there were no interim indicators of potential impairment of goodwill in the Company's other segments, the Company performed its annual impairment test under FAS 142 in the fourth quarter of fiscal 2004 using the present value of expected cash flows. The Company's analysis indicated no impairment of the goodwill in these segments.

In fiscal 2005 and 2006, the Company performed its annual impairment test for goodwill and determined that no adjustment to goodwill was necessary.

The changes in the carrying amount of goodwill by segment for the years ended September 30, 2006 and 2005 are as follows (in thousands):

|  | <b>Hardware</b> | <b>Software</b> | <b>Total</b> |
|--|-----------------|-----------------|--------------|
| <b>Balance at September 30, 2004</b>                         | \$ 25,020       | \$ 37,014       | \$ 62,034    |
| Adjustments to goodwill:                                     |                 |                 |              |
| Foreign currency translation                                 |                 | 60              | 60           |
| <b>Balance at September 30, 2005</b>                         | 25,020          | 37,074          | 62,094       |
| Adjustments to goodwill:                                     |                 |                 |              |
| Acquisitions:  |                 |                 |              |
| Helix  | 276,801         |                 | 276,801      |
| Synetics   | 12,631          |                 | 12,631       |
| Purchase accounting adjustments on prior period acquisitions |                 | (232)           | (232)        |
| Foreign currency translation                                 |                 | 150             | 150          |
| <b>Balance at September 30, 2006</b>                         | \$ 314,452      | \$ 36,992       | \$ 351,444   |

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

|                            | <b>September 30, 2006</b> |                                 |                       | <b>September 30, 2005</b> |                                 |                       |
|----------------------------|---------------------------|---------------------------------|-----------------------|---------------------------|---------------------------------|-----------------------|
|                            | <b>Cost</b>               | <b>Accumulated Amortization</b> | <b>Net Book Value</b> | <b>Cost</b>               | <b>Accumulated Amortization</b> | <b>Net Book Value</b> |
| Patents                    | \$ 10,024                 | \$ 6,899                        | \$ 3,125              | \$ 7,179                  | \$ 6,934                        | \$ 245                |
| Completed technology       | 90,585                    | 38,386                          | 52,199                | 30,385                    | 29,120                          | 1,265                 |
| License agreements         | 305                       | 305                             |                       | 305                       | 305                             |                       |
| Trademark and trade names  | 7,232                     | 3,120                           | 4,112                 | 2,532                     | 2,336                           | 196                   |
| Non-competition agreements | 1,726                     | 1,721                           | 5                     | 1,726                     | 1,716                           | 10                    |
| Customer relationships     | 43,017                    | 8,391                           | 34,626                | 6,517                     | 4,405                           | 2,112                 |

\$ 152,889    \$ 58,822    \$ 94,067    \$ 48,644    \$ 44,816    \$ 3,828

Amortization expense for intangible assets was \$14.6 million, \$3.1 million and \$3.7 million for the years ended September 30, 2006, 2005 and 2004, respectively.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Estimated future amortization expense for the intangible assets recorded by the Company as of September 30, 2006 is as follows (in millions):

|                          |         |
|--------------------------|---------|
| Year ended September 30, |         |
| 2007                     | \$ 16.0 |
| 2008                     | 17.0    |
| 2009                     | 18.1    |
| 2010                     | 14.9    |
| 2011                     | 9.9     |
| Thereafter               | 18.2    |

**7. Investment in Affiliates****Joint Ventures**

The Company participates 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. The joint venture was formed in 1981 by Helix and ULVAC Corporation. UCI manufactures and sells cryogenic vacuum pumps, principally to ULVAC Corporation, one of the largest semiconductor and flat panel OEM's in Japan. Each company owns 50% of UCI. The joint venture arrangement includes a license and technology agreement exclusively involving technology previously owned by Helix.

The Company owns 50% of the outstanding common stock of UCI. This investment is accounted for using the equity method. Under this method of accounting, the Company records in income its proportionate share of the earnings of UCI with a corresponding increase in the carrying value of the investment.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On May 8, 2006, the Company entered into a Joint Venture Agreement (the Agreement) with Yaskawa Electric Corporation (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 Company invested \$1,955,000 into this joint venture. YBA began operations on September 21, 2006.

**8. Earnings (Loss) Per Share**

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

|  | <b>Year Ended September 30,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Net income (loss)  | \$ 25,930                       | \$ (11,612) | \$ 14,659   |
| Weighted average common shares outstanding used in computing basic earnings (loss) per share           | 72,323                          | 44,919      | 43,006      |
| Dilutive common stock options  | 210                             |             | 567         |
| Weighted average common shares outstanding for purposes of computing diluted earnings (loss) per share | 72,533                          | 44,919      | 43,573      |
| Basic earnings (loss) per share  | \$ 0.36                         | \$ (0.26)   | \$ 0.34     |
| Diluted earnings (loss) per share  | \$ 0.36                         | \$ (0.26)   | \$ 0.34     |

Approximately 4,796,000, 5,374,000 and 4,985,000 options to purchase common stock and 1,000, 21,000 and 0 shares of restricted stock were excluded from the computation of diluted earnings (loss) per share attributable to common stockholders for the years ended September 30, 2006, 2005 and 2004, respectively, as their effect would be anti-dilutive. The 4,796,000 and 4,985,000 options for the years ended September 30, 2006 and 2004 had an exercise price greater than the average market price of the common stock. These options and restricted stock awards could, however, become dilutive in future periods. In addition, 1,980,000, 2,492,000 and 2,492,000 shares of common stock for the assumed conversion of the Company's convertible debt were excluded from this calculation for the years ended September 30, 2006, 2005 and 2004, respectively, as the effect of conversion would be anti-dilutive. On July 17, 2006, the Company paid the convertible debt in full.

**9. Income Taxes**

The components of the income tax provision are as follows (in thousands):

|          | <b>Year Ended September 30,</b> |             |             |
|----------|---------------------------------|-------------|-------------|
|          | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Current: |                                 |             |             |
| Federal  | \$ 680                          | \$          | \$          |
| State    | 6                               | 6           | 6           |
| Foreign  | 4,046                           | 5,198       | 8,047       |
|          | 4,732                           | 5,204       | 8,053       |

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|           | <b>Year Ended September 30,</b> |             |             |
|-----------|---------------------------------|-------------|-------------|
|           | <b>2006</b>                     | <b>2004</b> | <b>2003</b> |
| Deferred: |                                 |             |             |
| Federal   |                                 |             |             |
| State     |                                 |             |             |
| Foreign   |                                 |             |             |
|           | \$ 4,732                        | \$ 5,204    | \$ 8,053    |

The components of income (loss) from continuing operations before income taxes and minority interests, are as follows (in thousands):

|          | <b>Year Ended September 30,</b> |             |             |
|----------|---------------------------------|-------------|-------------|
|          | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Domestic | \$ 19,562                       | \$ (7,015)  | \$ 10,820   |
| Foreign  | 10,345                          | 4,264       | 21,578      |
|          | \$ 29,907                       | \$ (2,751)  | \$ 32,398   |

The differences between the income tax provision (benefit) and income taxes computed using the applicable U.S. statutory federal tax rate are as follows (in thousands):

|   | <b>Year Ended September 30,</b> |             |             |
|---|---------------------------------|-------------|-------------|
|   | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Income tax provision (benefit) computed at federal statutory rate | \$ 10,467                       | \$ (963)    | \$ 11,339   |
| State income taxes, net of federal benefit                        | 4                               | (643)       | 286         |
| Research and development tax credits                              |                                 |             | (1,079)     |
| ETI tax benefit/Sec. 199 manufacturing deduction                  | (1,009)                         | (357)       | (621)       |
| Foreign income taxed at different rates                           | 1,661                           | 2,035       | (3,090)     |
| Dividends   | 1,148                           | 3,531       | 223         |
| Change in deferred tax asset valuation allowance                  | (9,289)                         | (1,164)     | (4,618)     |
| Other permanent differences                                       | 135                             | 56          | 45          |
| Deferred compensation   | 117                             | 636         | 1,124       |
| Nondeductible meals and entertainment                             | 259                             | 220         | 254         |
| Withholding taxes   | 1,540                           | 3,328       | 3,895       |
| Foreign taxes deducted  | (539)                           | (1,475)     |             |
| Other   | 238                             |             | 295         |

|                      |          |          |          |
|----------------------|----------|----------|----------|
| Income tax provision | \$ 4,732 | \$ 5,204 | \$ 8,053 |
|----------------------|----------|----------|----------|

The Company does not provide for U.S. income taxes applicable to undistributed earnings of its foreign subsidiaries since these earnings are indefinitely reinvested.

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**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The significant components of the net deferred tax assets are as follows (in thousands):

|  | <b>Year Ended<br/>September 30,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2006</b>                         | <b>2005</b> |
| Reserves not currently deductible      | \$ 30,151                           | \$ 25,630   |
| Federal, state and foreign tax credits | 14,700                              | 13,546      |
| Amortization                           |                                     | 27,370      |
| Depreciation                           | 8,505                               | 8,399       |
| Stock-based compensation               | 4,866                               | 6,749       |
| Net operating loss carryforwards       | 157,721                             | 166,079     |
| Deferred tax assets                    | 215,943                             | 247,773     |
| Amortization                           | 7,706                               |             |
| Other liabilities                      | 2,877                               | 2,054       |
| Deferred tax liabilities               | 10,583                              | 2,054       |
| Valuation allowance                    | 205,360                             | 245,719     |
| Net deferred tax assets                | \$                                  | \$          |

As a result of recognizing substantial operating losses in prior years, including the year ended September 30, 2005, and the continuing uncertainty in the semiconductor sector, the Company has determined that it is more likely than not that the net deferred tax assets will not be realized and has maintained a full valuation allowance against its net deferred tax assets from continuing operations at September 30, 2006 and 2005. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating taxable income in future periods. The Company continues 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.

The approximate \$40.4 million decrease in the valuation allowance at September 30, 2006 compared to September 30, 2005 is principally due to the recording of deferred tax liabilities due to acquired identified intangibles, utilization of net operating losses, expiring tax credits and changes in state and foreign tax rates.

As of September 30, 2006, the Company had federal, state and foreign net operating loss carryforwards from continuing and discontinued operations of approximately \$721.6 million and federal and state research and development tax credit carryforwards of approximately \$14.7 million available to reduce future tax liabilities, which expire at various dates through 2026. Included in the net operating loss carryforwards are stock option deductions of



approximately \$19.5 million. The benefits of these tax deductions approximate \$7.0 million of which approximately \$4.0 million will be credited to additional paid-in capital upon being realized or recognized.

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.

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Common Stock Offering**

On December 16, 2003, the Company completed a public offering of 6,900,000 shares of its common stock. The Company received proceeds, net of \$6.8 million of issuance costs, of \$124.3 million on the sale of the common stock.

**11. Financing Arrangements**

On May 23, 2001, the Company completed the private placement of \$175.0 million aggregate principal amount of 4.75% Convertible Subordinated Notes due in 2008. The Company received net proceeds of \$169.5 million from the sale. Interest on the notes was paid on June 1 and December 1 of each year. The notes were scheduled to mature on June 1, 2008.

The Company did not file its quarterly report on Form 10-Q for the period ended March 31, 2006 by the prescribed due date. As a result of this delay, the Company was not in compliance with its obligation under Section 6.2 of the indenture with respect to its 4.75% Convertible Subordinated Notes due 2008 to file with the SEC all reports and other information and documents which the Company is required to file with the SEC pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934. On May 15, 2006, the Company received a notice from holders of more than 25% in aggregate principal amount of notes outstanding that the Company was in default of Section 6.2 of the indenture based on its failure to file its Form 10-Q. On Friday July 14, 2006, the Company received a further notice from holders of more than 25% of the aggregate outstanding principal amount of the notes accelerating the Company's obligation to repay the unpaid principal on the notes because its Report on Form 10-Q for the quarter ended March 31, 2006 had not yet been filed. On Monday, July 17, 2006, the Company paid the outstanding \$175.0 million principal balance to the trustee and subsequently paid all accrued interest. The notes are now retired, having been paid in full.

At September 30, 2006, the Company had \$0.7 million of an uncommitted demand promissory note facility still in use, all of it for letters of credit.

Debt consists of the following (in thousands):

|  | <b>September 30,</b> |             |
|--|----------------------|-------------|
|  | <b>2006</b>          | <b>2005</b> |
| Convertible subordinated notes at 4.75%, due on June 1, 2008 | \$                   | \$ 175,000  |
| Other  | 13                   | 14          |
|  | 13                   | 175,014     |
| Less current portion   | 11                   | 175,012     |
| Long-term debt   | \$ 2                 | \$ 2        |

The Company's debt repayments are due as follows (in thousands):

|                               |       |
|-------------------------------|-------|
| Year ended September 30, 2007 | \$ 11 |
| 2008                          | 2     |
|                               | \$ 13 |

## 12. Postretirement Benefits

On October 26, 2005, the Company purchased Helix and assumed responsibility for the liabilities and assets of the Helix Employees Pension Plan ( Plan ). The Plan is a final average pay pension plan. The Company's funding policy is to contribute an amount equal to the minimum required employer contribution under the Employee

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Retirement Income Security Act of 1974. In May 2006, the Company's Board of Directors approved the freezing of benefit accruals and future participation in the Plan effective October 31, 2006.

The Company uses a September 30th measurement date in the determination of net periodic benefit costs, benefit obligations and the value of plan assets. The following tables set forth the funded status and amounts recognized in the Company's consolidated balance sheets at September 30, 2006 for the Plan (in thousands):

|   | <b>Year Ended<br/>September 30, 2006</b> |
|---|--|
| Benefit obligation at October 1, 2005             | \$                                       |
| Benefit obligation assumed at date of acquisition | 13,777                                   |
| Service cost                                      | 1,740                                    |
| Interest cost                                     | 821                                      |
| Actuarial gain                                    | (567)                                    |
| Disbursements                                     | (3,444)                                  |
| Benefit obligation at September 30, 2006          | \$ 12,327                                |

|  | <b>Year Ended<br/>September 30, 2006</b> |
|--|--|
| Fair value of assets at October 1, 2005    | \$                                       |
| Fair value assumed at date of acquisition  | 11,865                                   |
| Actual return on plan assets               | 1,637                                    |
| Company contributions                      | 3,000                                    |
| Disbursements                              | (3,444)                                  |
| Fair value of assets at September 30, 2006 | \$ 13,058                                |

|                                     | <b>Year Ended<br/>September 30, 2006</b> |
|-------------------------------------|--|
| Funded status at September 30, 2006 | \$ 731                                   |
| Unrecognized net actuarial gain     | (915)                                    |
| Accrued benefit liability           | \$ (184)                                 |

The Company's investment strategy with respect to Plan assets is to maximize return while protecting principal. These investments are primarily in equity and debt securities. The expected long term rate of return on Plan assets was 8.25% for the year ended September 30, 2006. The expected rate of return was developed through analysis of historical market returns, current market conditions and the Plans' past experience.

Net periodic benefit cost consisted of the following (in thousands):

|                           | <b>Year Ended<br/>September 30, 2006</b> |
|---------------------------|--|
| Service cost              | \$ 1,740                                 |
| Interest cost             | 821                                      |
| Expected return on assets | (1,000)                                  |
| Settlement gain           | (289)                                    |
| Net periodic pension cost | \$ 1,272                                 |

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The accumulated benefit obligation for the Plan was \$12.3 million at September 30, 2006. Certain information for the Plan with accumulated benefit obligations follows (in thousands):

|                                | <b>September 30, 2006</b> |
|--------------------------------|---------------------------|
| Projected benefit obligation   | \$ 12,327                 |
| Accumulated benefit obligation | 12,327                    |
| Fair value of plan assets      | 13,058                    |

Weighted-average assumptions used to determine net cost at September 30, 2006 follows:

|                                | <b>September 30, 2006</b> |
|--------------------------------|---------------------------|
| Discount rate                  | 5.75%                     |
| Expected return on plan assets | 8.25%                     |
| Rate of compensation increase  | 4.00%                     |

The Company does not expect to make a contribution to the Plan in fiscal 2007.

Expected benefit payments are expected to be paid as follows (in thousands):

|            |        |
|------------|--------|
| 2007       | \$ 290 |
| 2008       | 1,175  |
| 2009       | 550    |
| 2010       | 1,153  |
| 2011       | 1,135  |
| Thereafter | 8,633  |

The Company sponsors defined contribution plans that meet the requirements of Section 401(k) of the Internal Revenue Code. All United States employees of the Company who meet minimum age and service requirements are eligible to participate in the plan. The plan allows employees to invest, on a pre-tax basis, a percentage of their annual salary subject to statutory limitations.

The Company's contribution expense for worldwide defined contribution plans was \$2.8 million, \$1.9 million and \$0.9 million for the years ended September 30, 2006, 2005 and 2004, respectively.

The Company had an accrual of \$9.9 million related to the retirement benefit to be paid to its former Chief Executive Officer under the terms of his employment agreement as of September 30, 2004. The amount payable was earned over time and due upon his retirement. In accordance with his employment contract, the full retirement benefit as determined by the employment agreement of \$10.1 million was paid in January 2005.

The Company has a Supplemental Key Executive Retirement Plan (acquired with Helix) which is designed to supplement benefits paid to participants under Company-funded, tax-qualified retirement plans. The Company recorded additional retirement costs of \$59,000 for the year ended September 30, 2006 in connection with this plan. At September 30, 2006, the Company had \$641,000 accrued for benefits payable under the Supplemental Key Executive Retirement Plan.

### **13. Stockholders Equity and Convertible Redeemable Preferred Stock**

#### *Preferred Stock*

At September 30, 2006 and 2005 there were one million shares of preferred stock, \$0.01 par value per share authorized; no shares were issued and outstanding at September 30, 2006 and 2005, respectively. Preferred stock may be issued at the discretion of the Board of Directors without stockholder approval with such designations, rights and preferences as the Board of Directors may determine.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Rights Distribution***

Brooks is a party to a rights agreement between itself and EquiServe Trust Company, N.A. Pursuant to this agreement, Brooks declared a dividend to its stockholders as of August 12, 1997 of the right to initially purchase Brooks common stock or 1/1,000 of a share of Series A Junior Participating Preferred Stock. The preferred stock purchase rights are attached to the shares of Brooks common stock until a triggering event occurs. The preferred stock purchase rights are triggered by the acquisition by a person or group, an acquiring person as defined in the rights agreement, other than Brooks or any of Brooks subsidiaries or employee benefit plans, of 15% or more of the outstanding shares of Brooks common stock. In such event, the holder of a preferred stock purchase right paying the exercise price would be able to purchase, instead of a fraction of a share of Series A Junior Participating Preferred Stock, a number of shares of Brooks common stock having a market value equal to twice the exercise price. In the event of specified mergers and similar transactions involving Brooks, shares of the other party to the transaction or its parent could be purchased at half of the market price of such shares by the holders of the preferred stock purchase rights. The preferred stock purchase rights are redeemable in whole, but not in part, by Brooks for \$0.001 per right and expire July 31, 2007. Subject to restrictions, the preferred stock purchase rights may be exchanged for one share of Brooks common stock upon election by Brooks board of directors. An acquiring person would not be permitted to exercise a preferred stock purchase right. The intended effect of the rights agreement is to deter any person or group from becoming an acquiring person without negotiating the acquisition with Brooks board of directors.

**14. Stock Plans*****Amended and Restated 2000 Equity Incentive Plan***

The purposes of the Amended and Restated 2000 Equity Incentive Plan (the 2000 Plan), are 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. Under the 2000 Plan the Company may grant (i) incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and (ii) options that are not qualified as incentive stock options (nonqualified stock options) and (iii) stock appreciation rights, performance awards and restricted stock. All employees of the Company or any affiliate of the Company, independent directors, consultants and advisors are eligible to participate in the 2000 Plan. Options under the 2000 Plan generally vest over four years and expire seven years from the date of grant. At the Company's March 2006 Annual Meeting, stockholders approved an amendment to the 2000 Plan to increase the number of shares authorized for issuance under the plan by 3,000,000 shares, for a total of 9,000,000 shares. As of September 30, 2006, options to purchase 2,436,029 shares are outstanding and 5,527,450 shares remain available for grant.

During the year ended September 30, 2006, the Company issued 699,500 shares of restricted stock or units under the Amended and Restated 2000 Equity Incentive Plan, net of cancellations. These restricted stock awards generally have the following vesting schedules: three year vesting in which 25% vest in Year 1, 25% vest in Year 2 and 50% vest in Year 3; four year vesting in which 50% vest in Year 2, 25% vest in Year 3 and 25% vest in Year 4; and four year cliff vesting. Compensation expense related to these awards is being recognized on a straight line basis over the vesting period, based on the difference between the fair market value of the Company's common stock on the date of grant and the amount received from the employee.

***1998 Employee Equity Incentive Plan***



The purposes of the 1998 Employee Equity Incentive Plan (the 1998 Plan ), adopted by the Board of Directors of the Company in April 1998, are to attract and retain employees and provide an incentive for them to assist the Company in achieving long-range performance goals, and to enable them to participate in the long-term growth of the Company. All employees of the Company, other than its officers and directors, (including contractors, consultants, service providers or others) who are in a position to contribute to the long-term success and growth of

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company, are eligible to participate in the 1998 Plan. Options under the 1998 Plan generally vest over a period of four years and generally expire seven years from the date of grant. From February 26, 2003 through September 30, 2006, 1,780,405 options were forfeited due to employee terminations. A total of 1,560,039 options are outstanding and 291,032 shares remain available for grant under the 1998 Plan as of September 30, 2006.

***1993 Non-Employee Director Stock Option Plan***

The purpose of the 1993 Non-Employee Director Stock Option Plan (the Directors Plan ) was to attract and retain the services of experienced and knowledgeable independent directors of the Company for the benefit of the Company and its stockholders and to provide additional incentives for such independent directors to continue to work for the best interests of the Company and its stockholders through continuing ownership of its common stock. The Directors Plan expired in 2003, although some options issued under that plan remain outstanding. Under its terms, each director who was not an employee of the Company or any of its subsidiaries was eligible to receive options under the Directors Plan. Under the Directors Plan, each eligible director received an automatic grant of an option to purchase 25,000 shares of common stock upon becoming a director of the Company and an option to purchase 10,000 shares on July 1 each year thereafter. Options granted under the Directors Plan generally vested over a period of five years and generally expired ten years from the date of grant. A total of 10,000 options are outstanding and no shares remain available for grant under the Directors Plan as of September 30, 2006.

***1992 Combination Stock Option Plan***

Under the Company's 1992 Stock Option Plan (the 1992 Plan ), the Company may grant both incentive stock options and nonqualified stock options. Incentive stock options may only be granted to persons who are employees of the Company at the time of grant, which may include officers and directors who are also employees. Nonqualified stock options may be granted to persons who are officers, directors or employees of or consultants or advisors to the Company or persons who are in a position to contribute to the long-term success and growth of the Company at the time of grant. Options granted under the 1992 Plan generally vest over a period of four years and generally expire ten years from the date of grant. A total of 115,596 options are outstanding and no shares remain available for grant under the 1992 Plan as of September 30, 2006.

***Stock Options of Acquired Companies***

In connection with the acquisition of PRI on May 14, 2002, the Company assumed the outstanding options of multiple stock option plans that were adopted by PRI. At acquisition, 6,382,329 options to purchase PRI common stock were outstanding and converted into 3,319,103 options to purchase the Company's Common Stock. There were options to purchase 120,554 shares granted under this plan that were outstanding at September 30, 2006. The Company does not intend to issue any additional options under the PRI stock option plan.

In connection with the acquisition of Helix on October 26, 2005, the Company assumed the outstanding options of multiple stock option plans that were adopted by Helix. At acquisition, 689,622 options to purchase Helix common stock were outstanding and converted into 765,480 options to purchase the Company's Common Stock. A total of 574,977 options are outstanding and 153,595 shares remain available for grant under the Helix plans as of September 30, 2006. The Company does not intend to issue any additional options under the Helix stock option plan.



**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock Option Activity**

Aggregate stock option activity for all the above plans for the years ended September 30, 2006, 2005 and 2004 is as follows:

|   | 2006        |                              | Year Ended September 30,<br>2005 |                              | 2004        |                              |
|---|-------------|------------------------------|----------------------------------|------------------------------|-------------|------------------------------|
|   | Shares      | Weighted<br>Average<br>Price | Shares                           | Weighted<br>Average<br>Price | Shares      | Weighted<br>Average<br>Price |
| Options outstanding at beginning of year  | 5,205,354   | \$ 23.92                     | 5,709,626                        | \$ 25.43                     | 4,639,910   | \$ 28.93                     |
| Granted   | 217,000     | \$ 12.82                     | 652,250                          | \$ 16.38                     | 2,486,159   | \$ 23.84                     |
| Assumed from Helix Technology acquisition   | 765,480     | \$ 16.42                     |                                  | \$                           |             | \$                           |
| Exercised   | (108,104)   | \$ 10.69                     | (179,694)                        | \$ 12.77                     | (157,730)   | \$ 15.51                     |
| Forfeited/expired   | (1,289,253) | \$ 27.56                     | (976,828)                        | \$ 29.77                     | (1,258,713) | \$ 36.95                     |
| Options outstanding at end of year  | 4,790,477   | \$ 21.51                     | 5,205,354                        | \$ 23.92                     | 5,709,626   | \$ 25.43                     |
| Options exercisable at end of year  | 4,008,600   | \$ 22.82                     | 4,120,400                        | \$ 25.83                     | 3,234,428   | \$ 27.75                     |
| Weighted average fair value of options granted at market value during the year    |             | \$ 6.84                      |                                  | \$ 7.39                      |             | \$ 10.40                     |
| Weighted average fair value of options granted below market value during the year |             | \$ 6.81                      |                                  | \$ 6.20                      |             | \$ 12.37                     |
| Options available for future grant  | 5,972,077   |                              |                                  |                              |             |                              |

The following table summarizes information about stock options outstanding at September 30, 2006:

| Options Outstanding<br>Weighted-<br>Average<br>Remaining | Aggregate | Options Exercisable<br>Aggregate |
|--|-----------|----------------------------------|
|--|-----------|----------------------------------|

| Range of Exercise Prices | Shares    | Contractual  |                        |                                | Weighted- |                        |                                | Intrinsic |                        |
|--------------------------|-----------|--------------|------------------------|--------------------------------|-----------|------------------------|--------------------------------|-----------|------------------------|
|                          |           | Life (Years) | Average Exercise Price | Intrinsic Value (In Thousands) | Shares    | Average Exercise Price | Intrinsic Value (In Thousands) | Shares    | Average Exercise Price |
| \$3.62 \$13.05           | 1,028,780 | 4.44         | \$ 11.07               | \$ 2,038                       | 708,468   | \$ 10.74               | \$ 1,635                       |           |                        |
| \$13.06 \$24.02          | 1,218,225 | 4.69         | \$ 17.95               | \$                             | 766,103   | \$ 18.62               | \$                             |           |                        |
| \$24.30 \$24.30          | 1,328,279 | 3.13         | \$ 24.30               | \$                             | 1,318,836 | \$ 24.30               | \$                             |           |                        |
| \$24.78 \$59.44          | 1,215,193 | 1.86         | \$ 30.89               | \$                             | 1,215,193 | \$ 30.89               | \$                             |           |                        |
| \$3.62 \$59.44           | 4,790,477 | 3.49         | \$ 21.51               | \$ 2,038                       | 4,008,600 | \$ 22.82               | \$ 1,635                       |           |                        |

The weighted average remaining contractual life of options exercisable at September 30, 2006 was 3.1 years.

The aggregate intrinsic value in the table above represents the total intrinsic value, based on the Company's closing stock price of \$13.05 as of September 30, 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 September 30, 2006 was 708,468.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted average grant date fair value of options, as determined under SFAS No. 123R, granted during fiscal 2006, 2005 and 2004 was \$6.82, \$7.30, and \$10.81 per share, respectively. The total intrinsic value of options exercised during fiscal 2006 and 2005 was \$371,000 and \$718,000, respectively. The total cash received from employees as a result of employee stock option exercises during fiscal 2006 and 2005 was \$1,155,000 and \$2,294,000, respectively.

As of September 30, 2006 future compensation cost related to nonvested stock options is approximately \$6.0 million and will be recognized over an estimated weighted average period of 2.3 years.

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

Based on information currently available, the Company believes that, although certain options may have been granted in violation of our applicable option plans, those options are valid and enforceable obligations of the Company.

*Restricted Stock Activity*

Restricted stock for the year ended September 30, 2006 was determined using the fair value method. A summary of the status of the Company's restricted stock as of September 30, 2006 and changes during the year ended September 30, 2006 is as follows:

|                                  | <b>Year Ended<br/>September 30, 2006</b> |   |
|----------------------------------|--|---|
|                                  | <b>Shares</b>                            | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
| Outstanding at beginning of year | 288,000                                  | \$ 16.40  |
| Awards granted                   | 828,000                                  | 13.15   |
| Awards vested                    | (91,750)                                 | 16.10   |
| Awards canceled                  | (128,500)                                | 13.94   |
| Outstanding at end of year       | 895,750                                  | \$ 13.79  |

The fair value of restricted stock awards vested during fiscal 2006 was \$1.5 million. No restricted stock awards vested during fiscal 2005.

As of September 30, 2006, the unrecognized compensation cost related to nonvested restricted stock is \$8.9 million and will be recognized over an estimated weighted average amortization period of 3.0 years.

*1995 Employee Stock Purchase Plan*

On February 22, 1996, the stockholders approved the 1995 Employee Stock Purchase Plan (the 1995 Plan ) which enables eligible employees to purchase shares of the Company s common stock. Under the 1995 Plan, eligible employees may purchase up to an aggregate of 2,250,000 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 the 1995 Plan terminate upon voluntary withdrawal from the plan at any time or upon termination of employment. At the Company s March 2006 Annual Meeting, stockholders approved an amendment to the 1995 Plan to increase the number of shares authorized for issuance under the plan by 750,000 shares. As of September 30, 2006, 1,551,762 shares of common stock have been purchased under the 1995 Plan and 1,448,238 shares remain available for purchase.

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Acquisition-Related and Restructuring Costs and Accruals**

***Fiscal 2006 Activities***

The Company recorded a charge to continuing operations of \$5.3 million in the year ended September 30, 2006 for restructuring costs.

***Restructuring Costs***

Based on estimates of its near term future revenues and operating costs, in fiscal 2006, the Company took additional cost reduction actions. Accordingly, charges of \$5.3 million were recorded for these actions. Of this amount, \$3.3 million related to workforce reductions and \$2.0 million related to excess facilities primarily related to a vacant facility in Billerica, Massachusetts due to a longer period than initially estimated to sublease the facility. The workforce reductions consisted of \$2.4 million of severance costs associated with the termination of approximately 40 legacy Brooks employees worldwide in sales, service, operations and administrative functions, whose positions were made redundant as a result of the Helix acquisition and further downsizing in the Company's software segment, and \$1.8 million for retention bonuses earned in the period by employees who have been notified of their termination in the current and prior periods, offset by the \$0.9 million reversal of previously accrued termination costs to employees who will no longer be terminated or whose termination was settled at a reduced cost. The accruals for workforce reductions are expected to be paid over the next twelve months. The impact of these cost reductions on the Company's liquidity is not expected to be significant, as these cost savings yield actual cash savings within twelve months.

The Company continues to review and align its cost structure to attain profitable operations amid the changing semiconductor cycles.

***Fiscal 2005 Activities***

The Company recorded a charge to continuing operations of \$16.5 million in the year ended September 30, 2005 for restructuring costs. The Company also recorded a charge of \$1.0 million in the year ended September 30, 2005 related to the discontinued SELS division, which is included in the loss from discontinued operations.

***Restructuring Costs***

Based on estimates of its near term future revenues and operating costs, the Company announced in fiscal 2005 plans to take additional cost reduction actions. Accordingly, charges of \$17.5 million, of which \$1.0 million related to, and is classified within discontinued operations, were recorded for these actions. Of this amount, \$14.3 million related to workforce reductions of approximately 270 employees world wide, across all functions of the business and \$3.2 million related to excess facilities. Of the \$3.2 million of facilities charges, \$1.5 million represents an additional accrual on a previous vacated facility due to a longer period than initially estimated to sub-lease the facility. Workforce reduction charges included \$4.3 million for headcount reduction of approximately 100 individuals associated with our software segment, \$3.6 million for reductions of approximately 65 employees in our Jena, Germany facility and \$6.4 million related to various other actions undertaken in fiscal 2005. Excess facility charges consist of the present value of remaining lease obligations on facilities vacated in fiscal 2005. The impact of these cost reductions on the Company's liquidity is not expected to be significant, as these actions yield equivalent actual cash



savings within twelve months.

***Fiscal 2004 Activities***

The Company recorded a charge to operations of \$5.4 million in the year ended September 30, 2004 of which \$0.1 million related to acquisitions and \$5.3 million related to restructuring costs.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Acquisition-Related Costs*

The \$0.1 million related to acquisitions is comprised of legal and consulting costs to integrate and consolidate acquired entities into existing Brooks entities.

*Restructuring Costs*

Based on estimates of its near term future revenues and operating costs, the Company announced in fiscal 2004 several plans to take additional cost reduction actions. Accordingly, charges of \$5.3 million were recorded for these actions. Of this amount, \$3.9 million related to workforce reductions of approximately 60 employees world wide, across all functions of the business and \$1.4 million related to excess facilities. Excess facilities charges of \$1.4 million consisted of \$0.2 million for excess facilities identified in fiscal 2004 that were recorded to recognize the amount of the remaining lease obligations. These costs have been estimated from the time when the space is vacant and there are no plans to utilize the facility. Costs incurred prior to vacating the facilities were charged to operations. Final exit costs for facilities abandoned in previous restructurings amounted to \$0.7 million. The remaining \$0.5 million represents a reevaluation of the assumptions used in determining the fair value of certain lease obligations related to facilities abandoned in a previous restructuring. The revised assumptions, including lower estimates of expected sub-rental income over the remainder of the lease terms, are based on management's evaluation of the rental space available. The Company believes that the cost reduction programs implemented will align costs with revenues. In the event the Company is unable to achieve this alignment, additional cost cutting programs may be required in the future. The facilities charges are expected to be paid over the remaining lease periods, expiring in fiscal 2011. These charges helped better align the Company's cost structure. The impact of these cost reductions on the Company's liquidity is not expected to be significant, as these actions yield equivalent actual cash savings within twelve months.

The activity related to the Company's restructuring accruals is below, which includes activity related to our discontinued SELS division (in thousands):

|                   | <b>Fiscal 2006 Activity</b>               |                |                              |                  |                    | <b>Balance<br/>September 30,<br/>2006</b> |
|-------------------|---|----------------|------------------------------|------------------|--------------------|---|
|                   | <b>Balance<br/>September 30,<br/>2005</b> | <b>Expense</b> | <b>Helix<br/>Acquisition</b> | <b>Reversals</b> | <b>Utilization</b> |   |
| Facilities        | \$ 15,045                                 | \$ 1,966       | \$ 580                       | \$               | \$ (3,894)         | \$ 13,697                                 |
| Workforce-related | 8,429                                     | 4,321          | 2,756                        | (990)            | (11,670)           | 2,846                                     |
|                   | \$ 23,474                                 | \$ 6,287       | \$ 3,336                     | \$ (990)         | \$ (15,564)        | \$ 16,543                                 |

|  | <b>Fiscal 2005 Activity</b> |  |  |  |  | <b>Balance</b> |
|--|-----------------------------|--|--|--|--|----------------|
|  | <b>Balance</b>              |  |  |  |  | <b>Balance</b> |

|                   | <b>September 30,<br/>2004</b> | <b>Expense</b>   | <b>Adjustments</b> | <b>Reversals</b> | <b>Utilization</b> | <b>September 30,<br/>2005</b> |
|-------------------|-------------------------------|------------------|--------------------|------------------|--------------------|-------------------------------|
| Facilities        | \$ 17,730                     | \$ 1,680         | \$ 1,542           | \$               | \$ (5,907)         | \$ 15,045                     |
| Workforce-related | 2,460                         | 14,451           |                    | (184)            | (8,298)            | 8,429                         |
|                   | <b>\$ 20,190</b>              | <b>\$ 16,131</b> | <b>\$ 1,542</b>    | <b>\$ (184)</b>  | <b>\$ (14,205)</b> | <b>\$ 23,474</b>              |

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                   | <b>Fiscal 2004 Activity</b>               |                |                    |                  |                    | <b>Balance<br/>September 30,<br/>2004</b> |
|-------------------|---|----------------|--------------------|------------------|--------------------|---|
|                   | <b>Balance<br/>September 30,<br/>2003</b> | <b>Expense</b> | <b>Adjustments</b> | <b>Reversals</b> | <b>Utilization</b> |   |
| Facilities        | \$ 24,312                                 | \$ 192         | \$ 1,216           | \$               | \$ (7,990)         | \$ 17,730                                 |
| Workforce-related | 4,955                                     | 3,922          |                    |                  | (6,417)            | 2,460                                     |
|                   | \$ 29,267                                 | \$ 4,114       | \$ 1,216           | \$               | \$ (14,407)        | \$ 20,190                                 |

**16. Segment and Geographic Information**

The Company has two reportable segments: hardware and software. In the fourth quarter of fiscal year 2005, the Company's equipment automation and factory automation segments were combined into the hardware segment, which reflects how management now evaluates its business.

The hardware segment provides wafer handling products and components for use within semiconductor process equipment. These systems automate the movement of wafers into and out of semiconductor manufacturing process chambers and provide an integration point between factory automation systems and process tools. The products offered by the Company include vacuum and atmospheric systems and robots, subsystems, and related components. Also offered are assembly and manufacturing of customer designed automation systems, or contract automation systems. The primary customers for these solutions are manufacturers of process tool equipment. Other hardware products include Brooks' automated material handling systems, or AMHS, and equipment for lithography automation that manage the storage, inspection and transport of photomasks, or reticles.

The software segment addresses the need for production management systems driven by the extensive tracking and tracing requirements of the semiconductor industry. At the core of these production systems is the manufacturing execution system (MES) that is primarily responsible for tracking the movement of production wafers in a fab, and managing the data and actions for every wafer, equipment, operator and other resources in the fab. These mission-critical systems provide real time information primarily to production operators, supervisors and fab managers. Also provided is other important software applications to meet the critical requirements of the fab, such as real time dispatching and scheduling, equipment communications, advanced process control, material control using the AMHS, activity execution and control, automated maintenance management of equipment, and other applications. Customers often purchase more than one of these software products from Brooks for a single fab, often driving the need for consulting and integration services. These software products enable semiconductor manufacturers to increase their return on investment by maximizing production efficiency, and may be sold as part of an integrated solution or on a stand-alone basis. These software products and services are also used in many similar manufacturing industries as semiconductor, including flat panel display, data storage, and electronic assembly.

The Company evaluates performance and allocates resources based on revenues and operating income (loss). Operating income (loss) for each segment includes selling, general and administrative expenses directly attributable to the segment. Amortization of acquired intangible assets, including impairment of these assets and of goodwill and acquisition-related and restructuring charges are excluded from the segments' operating income (loss). The Company's

non-allocable overhead costs, which include corporate general and administrative expenses, are allocated between the segments based upon segment revenues. Segment assets exclude deferred tax assets, acquired intangible assets, goodwill, marketable securities and cash equivalents.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Financial information for the Company's business segments is as follows (in thousands):

|                               | <b>Hardware</b> | <b>Software</b> | <b>Total</b> |
|-------------------------------|-----------------|-----------------|--------------|
| Year ended September 30, 2006 |                 |                 |              |
| Revenues                      |                 |                 |              |
| Product                       | \$ 488,827      | \$ 25,467       | \$ 514,294   |
| Services                      | 118,667         | 59,909          | 178,576      |
|                               | \$ 607,494      | \$ 85,376       | \$ 692,870   |
| Gross profit                  | \$ 186,650      | \$ 58,134       | \$ 244,784   |
| Segment operating income      | \$ 34,921       | \$ 3,054        | \$ 37,975    |
| Depreciation                  | \$ 15,362       | \$ 1,742        | \$ 17,104    |
| Assets                        | \$ 418,296      | \$ 36,707       | \$ 455,003   |
| Year ended September 30, 2005 |                 |                 |              |
| Revenues                      |                 |                 |              |
| Product                       | \$ 310,025      | \$ 28,047       | \$ 338,072   |
| Services                      | 59,753          | 65,921          | 125,674      |
|                               | \$ 369,778      | \$ 93,968       | \$ 463,746   |
| Gross profit                  | \$ 99,786       | \$ 60,350       | \$ 160,136   |
| Segment operating income      | \$ 12,481       | \$ 547          | \$ 13,028    |
| Depreciation                  | \$ 9,899        | \$ 3,352        | \$ 13,251    |
| Assets                        | \$ 237,676      | \$ 54,675       | \$ 292,351   |
| Year ended September 30, 2004 |                 |                 |              |
| Revenues                      |                 |                 |              |
| Product                       | \$ 357,280      | \$ 44,972       | \$ 402,252   |
| Services                      | 58,194          | 74,607          | 132,801      |
|                               | \$ 415,474      | \$ 119,579      | \$ 535,053   |
| Gross profit                  | \$ 130,124      | \$ 69,542       | \$ 199,666   |
| Segment operating income      | \$ 35,231       | \$ 8,995        | \$ 44,226    |
| Depreciation                  | \$ 8,817        | \$ 4,940        | \$ 13,757    |
| Assets                        | \$ 296,115      | \$ 79,647       | \$ 375,762   |

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the Company's reportable segment operating income (loss) and segment assets to the corresponding consolidated amounts as of and for the year ended September 30, 2006, 2005 and 2004 is as follows (in thousands):

|   | <b>As of and for the Year Ended<br/>September 30,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2006</b>   | <b>2005</b> | <b>2004</b> |
| Segment income (loss) from continuing operations          | \$ 37,975   | \$ 13,028   | \$ 44,226   |
| Amortization of acquired intangible assets                | 4,894   | 804         | 1,053       |
| Restructuring and acquisition-related charges             | 5,297   | 16,542      | 5,356       |
| Total income (loss) from continuing operations            | \$ 27,784   | \$ (4,318)  | \$ 37,817   |
| Segment assets  | \$ 455,003  | \$ 292,351  | \$ 375,762  |
| Assets from discontinued operations                       |   | 55          | 1,706       |
| Goodwill  | 351,444   | 62,094      | 62,034      |
| Intangible assets   | 94,067  | 3,828       | 6,929       |
| Investments in marketable securities and cash equivalents | 92,063  | 265,752     | 224,608     |
| Total assets  | \$ 992,577  | \$ 624,080  | \$ 671,039  |

Net revenues based upon the source of the order by geographic area are as follows (in thousands):

|               | <b>Year Ended September 30,</b> |             |             |
|---------------|---------------------------------|-------------|-------------|
|               | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| North America | \$ 412,941                      | \$ 241,681  | \$ 272,694  |
| Asia/Pacific  | 157,379                         | 141,703     | 141,697     |
| Europe        | 122,550                         | 80,362      | 120,662     |
|               | \$ 692,870                      | \$ 463,746  | \$ 535,053  |

Long-lived assets, including property, plant and equipment by geographic area are as follows (in thousands):

|               | <b>September 30,</b> |             |
|---------------|----------------------|-------------|
|               | <b>2006</b>          | <b>2005</b> |
| North America | \$ 73,142            | \$ 51,115   |
| Asia/Pacific  | 5,076                | 2,357       |

|        |           |           |
|--------|-----------|-----------|
| Europe | 615       | 693       |
|        | \$ 78,833 | \$ 54,165 |

### 17. Significant Customers and Related Party Information

On June 11, 2001, the Company appointed a new member to its Board of Directors. This individual served as a director of one of the Company's customers until May 3, 2006. Accordingly, this customer is considered a related party for the period from June 11, 2001 through May 3, 2006. Revenues from this customer from October 1, 2005 to March 31, 2006 were approximately \$205,000 and for the years ended September 30, 2005 and 2004 were approximately \$319,000 and \$409,000, respectively. The amounts due from this customer included in accounts receivable at March 31, 2006 and September 30, 2005 were \$40,000 and \$33,000, respectively. Related party transactions and amounts included in accounts receivable are on standard pricing and contractual terms and manner of settlement for products and services of similar types and at comparable volumes.



**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company had no customer that accounted for more than 10% of revenues in the years ended September 30, 2006, 2005 and 2004. The Company had two customers that accounted for more than 10% of its accounts receivable balance at September 30, 2006 and one customer that accounted for 10% of its accounts receivable balance at September 30, 2005.

**18. Other Balance Sheet Information**

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

|                                      | <b>September 30,</b> |                  |
|--------------------------------------|----------------------|------------------|
|                                      | <b>2006</b>          | <b>2005</b>      |
| Accounts receivable                  | \$ 128,904           | \$ 80,352        |
| Less allowance for doubtful accounts | 1,709                | 2,797            |
|                                      | <b>\$ 127,195</b>    | <b>\$ 77,555</b> |

The allowance for doubtful accounts activity for the years ended September 30, 2006, 2005 and 2004 were as follows (in thousands):

| <b>Description</b>                   | <b>Balance at<br/>Beginning<br/>of<br/>Period</b> | <b>Acquisition<br/>Reserves</b> | <b>Provisions</b> | <b>Reversals of<br/>Bad Debt<br/>Expense</b> | <b>Write-offs<br/>and<br/>Adjustments</b> | <b>Balance at<br/>End of<br/>Period</b> |
|--------------------------------------|---|---------------------------------|-------------------|--|---|---|
| 2006 Allowance for doubtful accounts | \$ 2,797  | \$ 579                          | \$                | \$ (842)                                     | \$ (825)                                  | \$ 1,709                                |
| 2005 Allowance for doubtful accounts | 3,230   |                                 |                   |  | (433)                                     | 2,797                                   |
| 2004 Allowance for doubtful accounts | 6,499   |                                 | 225               | (2,050)                                      | (1,444)                                   | 3,230                                   |

|                                   | <b>September 30,</b> |             |
|-----------------------------------|----------------------|-------------|
|                                   | <b>2006</b>          | <b>2005</b> |
| Inventories                       |                      |             |
| Raw materials and purchased parts | \$ 48,996            | \$ 24,612   |
| Work-in-process                   | 25,064               | 12,043      |
| Finished goods                    | 25,794               | 11,779      |

\$ 99,854      \$ 48,434

Reserves for excess and obsolete inventory were \$12,707,000, \$12,707,000 and \$14,520,000 at September 30, 2006, 2005 and 2004, respectively. The Company recorded additions to reserves for excess and obsolete inventory of \$2,917,000 (including net acquired reserves of \$1,686,000), \$8,902,000 and \$9,259,000 in fiscal 2006, 2005 and 2004, respectively, comprised of \$1,231,000, \$8,752,000 and \$7,340,000 charged to expense in fiscal 2006, 2005 and 2004, respectively, and \$8,000, \$150,000 and \$421,000 of foreign exchange differences charged to other accounts in fiscal 2006, 2005 and 2004, respectively. The Company reduced the reserves for excess and obsolete inventory by \$2,917,000, \$10,715,000 and \$10,244,000, in fiscal 2006, 2005 and 2004, respectively, for write-offs of inventory.

Table of Contents**BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 the years ended September 30, 2006, 2005, and 2004 is as follows (in thousands):

|   |           |
|---|-----------|
| Balance September 30, 2003              | \$ 11,809 |
| Accruals for warranties during the year | 3,980     |
| Settlements made during the year        | (3,843)   |
| Balance September 30, 2004              | 11,946    |
| Accruals for warranties during the year | 3,786     |
| Settlements made during the year        | (5,950)   |
| Balance September 30, 2005              | 9,782     |
| Acquisitions                            | 1,586     |
| Accruals for warranties during the year | 13,040    |
| Settlements made during the year        | (12,800)  |
| Balance September 30, 2006              | \$ 11,608 |

**19. Commitments and Contingencies***Lease Commitments*

The Company leases manufacturing and office facilities and certain equipment under operating leases that expire through 2015. Rental expense under operating leases, excluding expense recorded as a component of restructuring, for the years ended September 30, 2006, 2005 and 2004 was \$5.6 million, \$4.7 million and \$6.5 million, respectively. Future minimum lease commitments on non-cancelable operating leases, lease income and sublease income are as follows (in thousands):

|                               | <b>Operating<br/>Leases</b> | <b>Lease and<br/>Sublease<br/>Income</b> |
|-------------------------------|-----------------------------|--|
| Year ended September 30, 2007 | \$ 12,611                   | \$ 1,220                                 |
| 2008                          | 10,787                      | 1,230                                    |
| 2009                          | 10,528                      | 1,245                                    |
| 2010                          | 10,158                      | 1,261                                    |

|            |           |          |
|------------|-----------|----------|
| 2011       | 8,184     | 1,277    |
| Thereafter | 9,828     |          |
|            | \$ 62,096 | \$ 6,233 |

These future minimum lease commitments include approximately \$25.3 million related to facilities the Company has elected to abandon in connection with its restructuring initiatives. In addition, the Company is a guarantor on a 7 year lease in Mexico for approximately \$2.5 million.

***Purchase Commitments***

The Company has non-cancelable contracts and purchase orders for inventory of \$99.4 million at September 30, 2006.

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***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.

*ITI Lawsuit*

On or about April 21, 2005, the Company was served with a third-party complaint seeking to join the Company as a party to a patent lawsuit brought by an entity named Information Technology Innovation, LLC based in Northbrook, Illinois (ITI) against Motorola, Inc. (Motorola) and Freescale Semiconductor, Inc. (Freescale). In the lawsuit (the ITI Lawsuit), ITI claimed that Motorola and Freescale had infringed a U.S. patent that ITI asserts covers processes used to model a semiconductor manufacturing plant. ITI asserted that the Company has induced and contributed to the infringement of the patent. Subsequently Intel Corporation (Intel) filed a lawsuit against ITI seeking a declaratory judgment that Intel has not infringed and is not infringing the patent (the Intel Lawsuit) and notified the Company that Intel believed that the Company had an indemnification obligation to Intel, but that, at that time, Intel was not seeking to have those obligations determined and enforced in the Intel Lawsuit.

Freescale alleged that the Company had a duty to indemnify Freescale and Motorola from any infringement claims asserted against them based on their use of our AutoSched software program by paying all costs and expenses and all or part of any damages that either of them might incur as a result of the ITI Lawsuit brought by ITI.

Pursuant to an agreement executed on April 28, 2006, the Company settled and concluded with ITI and the other parties all of the matters that were or might have been raised in this litigation. In exchange for a cash payment, the settlement affords a license, releases and covenants from ITI not to sue the Company, the other parties named above, and all users of certain of our factory modeling software products such as the Autosched product. The Intel Lawsuit was also dismissed as a result of this settlement. In addition, the Company settled the claim for indemnification brought against Brooks by Freescale by the payment to Freescale of \$400,000 to defray a portion of the legal expenses borne by Freescale in the defense of the ITI litigation.

*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.

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Proceedings Relating to Equity Incentive Practices and the Restatement*

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 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, 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, and Thomas S. Grilk, Secretary and General Counsel of the Company, current Officers of the Company; 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,



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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 have served motions to dismiss the Consolidated Shareholder Derivative 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. The Defendants have filed motions to dismiss the Consolidated Verified Shareholder Derivative Complaint and to Stay this action pending the outcome of motions to dismiss in the 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. The Defendants have filed motions to dismiss the *Leech* complaint.

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. Competing plaintiffs and

their counsel have moved for consolidation with the *Leech* action described above, and for appointment as lead counsel.

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

**Table of Contents****BROOKS AUTOMATION, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 have not been served with a complaint or any other process in any of these matters.

**20. Discontinued Operations**

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 have 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 Financial Accounting Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

The summary of operating results from discontinued operations is as follows (in thousands):

|  | <b>Year Ended September 30,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2006</b>                     | <b>2005</b> | <b>2004</b> |
| Revenues   | \$ 90                           | \$ 626      | \$ 4,716    |
| Gross profit   | \$ 89                           | \$ (691)    | \$ 1,531    |
| Gain (loss) from discontinued operations, net of tax | \$ 89                           | \$ (3,516)  | \$ (9,475)  |

The loss from discontinued operations, net of tax of \$3.5 million for the year ended September 30, 2005 includes a loss on disposal, net of tax of \$24,000.

Due to the losses incurred since acquisition, no tax benefit is reflected for the losses incurred. The Company recorded impairment charges related to SELS of \$7.4 million in 2004.

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

|                | <b>September 30,</b> |             |
|----------------|----------------------|-------------|
|                | <b>2006</b>          | <b>2005</b> |
| Current assets | \$ 0                 | \$ 55       |

Non-current assets

|                                     |      |       |
|-------------------------------------|------|-------|
| Assets from discontinued operations | \$ 0 | \$ 55 |
|-------------------------------------|------|-------|

|  |      |        |
|--|------|--------|
| Current liabilities from discontinued operations | \$ 0 | \$ 399 |
|--|------|--------|

Current assets include accounts receivable and inventory. Non-current assets include property, plant and equipment. Current liabilities include accounts payable and other current liabilities.

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**BROOKS AUTOMATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Subsequent Events**

On November 3, 2006, the Company's Board of Directors committed to a formal plan of disposal of its 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 and to reclassify this division as discontinued operations in fiscal 2007.

Completion of the transaction is subject to several conditions, including expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and clearance under any applicable foreign antitrust laws, and other customary closing conditions. The Company expects to close the transaction during 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.

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**Item 9. *Changes In and Disagreements With Accountants on Financial Accounting and Financial Disclosure***

Not applicable.

**Item 9A. *Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of our chief executive and chief financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) an *Internal Control-Integrated Framework*. Based on our assessment, we concluded that, as of September 30, 2006, our internal control over financial reporting was effective.

Management has excluded the operations of Helix Technology Corporation ( Helix ) and Synetics Solutions Inc. ( Synetics ) from its assessment of internal control over financial reporting as of September 30, 2006 because those entities were acquired by the Company in purchase business combinations during fiscal 2006. The total assets and total revenues of the acquired businesses of Helix and Synetics represent 18% and 30%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2006.

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Our management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this report.

**Changes in Internal Control Over Financial Reporting**

There were no changes in internal control over financial reporting during the fiscal fourth quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. *Other Information***

On December 8, 2006, we entered into an employment agreement with Robert W. Woodbury, Jr., our Senior Vice President and Chief Financial Officer, that replaces Mr. Woodbury's former employment agreement. The agreement provides for, among other things, an annual base salary of \$305,000 and an annual management bonus of 0% to 150% of 70% of base salary. The agreement also provides that Mr. Woodbury will be entitled to severance, including one year's base salary and continued participation in benefit plans, if he is terminated without cause or if he resigns for good reason. Cause is defined to include willful failure or refusal to perform the duties pertaining to his job, engagement in conduct that is fraudulent, dishonest, unlawful or otherwise in violation of our standards of conduct or a material breach of the employment agreement or related agreements. Good reason is defined to include diminution of Mr. Woodbury's responsibility or position, our breach of the agreement or relocation of Mr. Woodbury. Payment of base salary and continued participation in benefit plans may be extended for up to one additional year if Mr. Woodbury is engaged in an ongoing search for replacement employment.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

The information required by this Item 10 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**Item 11. *Executive Compensation***

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**Item 13. *Certain Relationships and Related Transactions***

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**Item 14. *Principal Accountant Fees and Services***



The information required by this Item 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules****(a) Financial Statements and Financial Statement Schedule**

The consolidated financial statements of the Company are listed in the index under Part II, Item 8, in this Form 10-K.

Other financial statement schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the supplementary consolidated financial statements or notes thereto.

**(b) Exhibits****Exhibit****No.****Description**

- |      |   |
|------|---|
| 3.01 | Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 of the Company's registration statement on Form S-4 (Reg. No. 333-127945), filed on August 30, 2005, as amended on September 26, 2005 (the Helix S-4)).  |
| 3.02 | Certificate of Designations of the Company's Series A Junior Participating Preferred Stock (incorporated herein by reference to Exhibit 3.03 of the Company's registration statement on Form S-3 (Registration No. 333-34487), filed on August 27, 1997).   |
| 3.03 | Certificate of Amendment of the Company's Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 of the Helix S-4).  |
| 3.04 | Certificate of Amendment of the Company's Certificate of Incorporation (incorporated herein by reference to Exhibit 3.4 of the Helix S-4).  |
| 3.05 | Certificate of Increase of Shares Designated as the Company's Series A Junior Participating Preferred Stock (incorporated herein by reference to Exhibit 3.5 of the Helix S-4).   |
| 3.06 | Certificate of Ownership and Merger of PRI Automation, Inc. into the Company (incorporated herein by reference to Exhibit 3.6 of the Helix S-4).  |
| 3.07 | Certificate of Designations, Preferences, Rights and Limitations of the Company's Special Voting Preferred Stock (incorporated herein by reference to Exhibit 4.13 of the Company's registration statement on Form S-3 (Registration No. 333-87194), filed on April 29, 2002, as amended May 13, 2002). |
| 3.08 | Certificate of Change of Registered Agent and Registered Office of the Company (incorporated herein by reference to Exhibit 3.8 of the Helix S-4).  |
| 3.09 | Certificate of Amendment of Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.01 of the Company's quarterly report for the fiscal quarter ended March 31, 2003, filed on May 13, 2003).  |
| 3.10 | Certificate of Amendment of Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 of the Company's 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 the Company's 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 the Company's current report on Form 8-K, filed on October 26, 2005).   |
| 3.13 | Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.4 of the Company's current report on Form 8-K, filed on October 26, 2005).   |

- 4.01 Specimen Certificate for shares of the Company's common stock (incorporated herein by reference to the Company's registration statement on Form S-3 (Registration No. 333-88320), filed on May 15, 2002).
- 4.02 Rights Agreement dated July 23, 1997 (incorporated by reference to Exhibit No. 1 to the Company's Registration Statement on Form 8-A, filed on August 7, 1997).
- 4.03 Amendment No. 1 to Rights Agreement between the Company and the Rights Agent.
- 4.04 Amendment No. 2 to Rights Agreement between the Company and the Rights Agent (incorporated herein by reference to the Company's registration statement on Form 8-A/A filed on June 4, 2002).

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| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 4.05                   | Amendment No. 3 to Rights Agreement between the Company and the Rights Agent (incorporated herein by reference to the Company's registration statement on Form 8-A/A, filed on July 11, 2005).  |
| 10.01                  | Shareholders' Agreement, dated as of June 30, 2006, among Yaskawa Electric Corporation, Brooks Automation, Inc. and Yaskawa Brooks Automation, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2006, filed on August 9, 2006 (the 2006 Q3 10-Q)). |
| 10.02                  | Agreement and Plan of Merger, dated May 8, 2006, by and among Brooks Automation, Inc., Bravo Acquisition Subsidiary, Inc. and Synetics Solutions, Inc. (incorporated herein by reference to Exhibit 10.3 of the 2006 Q3 10-Q).  |
| 10.03                  | U.S. Robot Supply Agreement, made as of June 30, 2006, by and between Brooks Automation, Inc. and Yaskawa Electric Corporation. (incorporated herein by reference to Exhibit 10.4 of the 2006 Q3 10-Q).   |
| 10.04                  | Brooks Japan Robot Supply Agreement, made as of June 30, 2006, by and between Yaskawa Brooks Automation, Inc. and Brooks Automation, Inc. (incorporated herein by reference to Exhibit 10.5 of the 2006 Q3 10-Q).   |
| 10.05                  | Basic agreement between the Company and Ulvac Corporation dated August 17, 1981 (incorporated by reference to Exhibit 10.13 of the registration statement on Form S-2 (Registration No. 2- 84880) filed by Helix Technology Corporation).   |
| 10.06                  | Form of Indemnification Agreement for directors and officers of the Company (incorporated herein by reference to the Company's registration statement on Form S-1 (Registration No. 333-87296), filed on December 13, 1994 (the Brooks S-1)).   |
| 10.07                  | Second Amended and Restated Employment Agreement, dated as of October 18, 2006, by and between the Company and Edward C. Grady (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on October 20, 2006).   |
| 10.08                  | Employment Agreement, dated as of December 8, 2006, by and between the Company and Robert Woodbury.   |
| 10.09                  | Employment Agreement, dated as of October 24, 2005, by and between the Company and Thomas S. Grilk.   |
| 10.10                  | Employment Agreement, dated as of October 26, 2005, by and between the Company and James Gentilcore.  |
| 10.11                  | Employment Agreement, dated as of October 24, 2005, by and between the Company and Joseph Bellini.  |
| 10.12                  | Employment Agreement, dated as of October 26, 2005, by and between the Company and Robert Anastasi.   |
| 10.13                  | 1993 Nonemployee Director Stock Option Plan (incorporated herein by reference to Exhibit 99.1 to the Company's registration statement on Form S-8 (Registration No. 333-22717), filed on March 4, 1997).  |
| 10.14                  | 1992 Combination Stock Option Plan (incorporated herein by reference to Exhibit 99.2 to the Company's registration statement on Form S-8 (Registration No. 333-07313), filed on July 1, 1996).  |
| 10.15                  | 1995 Employee Stock Purchase Plan, as amended.  |
| 10.16                  | Amended and Restated 2000 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's current report on Form 8-K, filed on March 7, 2006).   |
| 10.17                  | Helix Technology Corporation 1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.1 of the Company's registration statement on Form S-8 (Registration No. 333-129724), filed on November 16, 2005).  |
| 10.18                  | Helix Technology Corporation Amended and Restated Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 4.2 of the Company's registration statement on Form S-8 (Registration No. 333-129724), filed on November 16, 2005).   |

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- 10.19 Helix Technology Corporation 1981 Employee Stock Option Plan (incorporated herein by reference to Exhibit 4.3. of the Company s registration statement on Form S-8 (Registration No. 333-129724), filed on November 16. 2005).
- 10.20 Form of 2000 Equity Incentive Plan New Employee Nonqualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.44 to the 2004 10-K).

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| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 10.21                  | Form of 2000 Equity Incentive Plan Existing Employee Nonqualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.45 to the 2004 10-K).  |
| 10.22                  | Form of 2000 Equity Incentive Plan Director Stock Option Agreement (incorporated herein by reference to Exhibit 10.46 to the 2004 10-K).  |
| 10.23                  | Form of Restricted Stock Grant Agreement.   |
| 10.24                  | Deferred Compensation Plan, as amended (incorporated herein by reference to Exhibit 10.1 to the Q3 2006 10-Q).  |
| 10.25                  | Lease between the Company and BerCar II, LLC for 12 Elizabeth Drive, Chelmsford, Massachusetts dated October 23, 2002 (incorporated herein by reference to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2002, filed on December 30, 2002).                    |
| 10.26                  | First Amendment to Lease between the Company and BerCar II, LLC for 12 Elizabeth Drive, Chelmsford, Massachusetts dated November 1, 2002 (incorporated herein by reference to the Company's annual report on Form 10-K for the fiscal year ended September 30, 2002, filed on December 30, 2002). |
| 10.27                  | Lease Agreement dated as of May 5, 1994 between the Company and The Prudential Insurance Company of America for 805 Middlesex Turnpike, Billerica, MA (incorporated herein by reference to the Brooks S-1).   |
| 10.28                  | Amendment to Lease dated as of July 24, 2000 between the Company and BCIA New England Holdings LLC (successor in interest to The Prudential Insurance Company of America) for 805 Middlesex Turnpike, Billerica, MA.  |
| 10.29                  | Lease Agreement dated as of October 12, 2000 between the Company and Progress Road LLC for 17 Progress Road, Billerica, MA.   |
| 10.30                  | First Amendment to Lease dated as of March 21, 2001 between the Company and Progress Road LLC for 17 Progress Road, Billerica, MA.  |
| 10.31                  | Lease, dated May 14, 1999, between MUM IV, LLC as Lessor and the Company as Lessee.   |
| 10.32                  | Multi-Tenant Industrial Triple Net Lease, effective December 15, 2000, between Catellus Development Corporation and Synetics Solutions, Inc., including amendments thereto.   |
| 10.33                  | Factory Lease Advanced Agreement among Sang Chul Park, Young Ja Kim, Joon Ho Park, Brooks Automation Asia, Ltd. and Brooks Automation Korea, Inc.   |
| 12.01                  | Calculation of Ratio of Earnings to Fixed Charges.  |
| 21.01                  | Subsidiaries of the Company.  |
| 23.01                  | Consent of PricewaterhouseCoopers LLP (Independent registered public accounting firm for the Company).  |
| 31.01                  | Rule 13a-14(a),15d-14(a) Certification.   |
| 31.02                  | Rule 13a-14(a),15d-14(a) Certification.   |
| 32                     | Section 1350 Certifications.  |

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

By: /s/ Edward C. Grady

Edward C. Grady,  
*Chief Executive Officer*

Date: December 13, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>            | <b>Title</b>   | <b>Date</b>       |
|-----------------------------|--|-------------------|
| /s/ Edward C. Grady         | Director and Chief Executive Officer<br>(Principal Executive Officer)                  | December 13, 2006 |
| Edward C. Grady             |  |                   |
| /s/ Robert W. Woodbury, Jr. | Senior Vice President and<br>Chief Financial Officer<br>(Principal Accounting Officer) | December 13, 2006 |
| Robert W. Woodbury, Jr.     |  |                   |
| /s/ A. Clinton Allen        | Director   | December 13, 2006 |
| A. Clinton Allen            |  |                   |
| /s/ Robert J. Lepofsky      | Director   | December 13, 2006 |
| Robert J. Lepofsky          |  |                   |
| /s/ Joseph R. Martin        | Director   | December 13, 2006 |
| Joseph R. Martin            |  |                   |
| /s/ John K. McGillicuddy    | Director   | December 13, 2006 |
| John K. McGillicuddy        |  |                   |
| /s/ Krishna G. Palepu       | Director   | December 13, 2006 |
| Krishna G. Palepu           |  |                   |

/s/ Alfred Woollacott III

Director

December 13, 2006

Alfred Woollacott III

/s/ Mark S. Wrighton

Director

December 13, 2006

Mark S. Wrighton