BRUKER CORP
Form 10-Q
May 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2011

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

For the transition period from to

Commission File Number 000-30833

BRUKER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-3110160**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

40 Manning Road, Billerica, MA 01821

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Class	**Outstanding at May 2, 2011**
Common Stock, $0.01 par value per share	165,766,101 shares

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Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2011

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PART I **FINANCIAL INFORMATION**

ITEM 1. **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

BRUKER CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 193.3	$ 230.4
Restricted cash	3.0	2.9
Accounts receivable, net	250.5	232.9
Inventory	571.6	511.0
Other current assets	97.4	73.9
Total current assets	1,115.8	1,051.1
Property, plant and equipment, net	246.8	233.7
Intangibles and other long-term assets	261.3	265.0
Total assets	$ 1,623.9	$ 1,549.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 185.5	$ 185.5
Current portion of long-term debt	30.9	28.9
Accounts payable	81.0	64.0
Customer advances	264.0	242.2
Other current liabilities	309.9	310.9
Total current liabilities	871.3	831.5
Long-term debt	79.0	86.6
Other long-term liabilities	102.1	104.3
Commitments and contingencies (Note 12)		
Shareholders Equity:		
Preferred stock, $0.01 par value 5,000,000 shares authorized, none issued or outstanding at March 31, 2011 and December 31, 2010		
Common stock, $0.01 par value 260,000,000 shares authorized, 165,499,311 and 165,246,426 shares issued and 165,479,116 and 165,229,207 shares outstanding at March 31, 2011 and December 31, 2010, respectively	1.6	1.6
Treasury stock at cost, 20,195 and 17,219 shares at March 31, 2011 and December 31, 2010, respectively	(0.2)	(0.2)
Other shareholders equity	566.9	523.3
Total shareholders equity attributable to Bruker Corporation	568.3	524.7
Noncontrolling interest in consolidated subsidiaries	3.2	2.7
Total shareholders equity	571.5	527.4

Total liabilities and shareholders equity	$	1,623.9	$	1,549.8

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Product revenue	$ 312.1	$ 244.0
Service revenue	43.6	31.5
Other revenue	1.3	2.2
Total revenue	357.0	277.7
Cost of product revenue	167.4	134.2
Cost of service revenue	24.5	17.2
Total cost of revenue	191.9	151.4
Gross profit	165.1	126.3
Operating expenses:		
Selling, general and administrative	88.7	65.6
Research and development	44.7	32.8
Amortization of acquisition-related intangible assets	3.9	0.5
Other charges	2.1	0.5
Total operating expenses	139.4	99.4
Operating income	25.7	26.9
Interest and other income (expense), net	(5.0)	(0.3)
Income before income taxes and noncontrolling interest in consolidated subsidiaries	20.7	26.6
Income tax provision	9.0	10.6
Consolidated net income	11.7	16.0
Net income (loss) attributable to noncontrolling interest in consolidated subsidiaries	0.4	(0.1)
Net income attributable to Bruker Corporation	$ 11.3	$ 16.1
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	$ 0.07	$ 0.10
Weighted average common shares outstanding:		
Basic	165.1	164.1
Diluted	166.7	165.6

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
Cash flows from operating activities:				
Consolidated net income	$	11.7	$	16.0
Adjustments to reconcile consolidated net income to cash flows from operating activities:				
Depreciation and amortization		11.9		7.5
Amortization of deferred financing costs		0.1		0.2
Write down of demonstration inventories to net realizable value		6.5		5.6
Stock-based compensation		1.8		1.6
Deferred income taxes		(4.2)		(9.9)
Other non-cash expenses		0.6		
Changes in operating assets and liabilities:				
Accounts receivable		(10.2)		4.5
Inventories		(44.2)		(31.6)
Accounts payable		14.3		5.9
Customer advances		13.8		6.1
Other changes in operating assets and liabilities, net		(31.5)		(0.4)
Net cash (used in) provided by operating activities		(29.4)		5.5
Cash flows from investing activities:				
Purchases of property, plant and equipment		(9.9)		(5.4)
Acquisitions, net of cash acquired		(0.2)		
Net cash used in investing activities		(10.1)		(5.4)
Cash flows from financing activities:				
Repayments of revolving lines of credit, net				(0.1)
Repayment of term debt		(5.8)		(4.1)
Changes in restricted cash		(0.8)		(1.7)
Proceeds from issuance of common stock, net		2.5		1.6
Net cash used in financing activities		(4.1)		(4.3)
Effect of exchange rate changes on cash and cash equivalents		6.5		0.2
Net change in cash and cash equivalents		(37.1)		(4.0)
Cash and cash equivalents at beginning of period		230.4		207.1
Cash and cash equivalents at end of period	$	193.3	$	203.1

The accompanying notes are an integral part of these statements.

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BRUKER CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Bruker Corporation and its wholly-owned subsidiaries (Bruker or the Company) is a designer and manufacturer of proprietary life science and materials research systems and associated products that address the rapidly evolving needs of a diverse array of customers in life science, pharmaceutical, biotechnology, clinical and molecular diagnostics research, as well as in materials and chemical analysis in various industries and government applications. The Company s core technology platforms include X-ray technologies, magnetic resonance technologies, mass spectrometry technologies, optical emission spectroscopy and infrared and Raman molecular spectroscopy technologies. The Company also manufactures and distributes a broad range of field analytical systems for chemical, biological, radiological, nuclear and explosives, or CBRNE, detection. The Company also develops and manufactures superconducting and non-superconducting materials and devices for use in renewable energy, energy infrastructure, healthcare and big science research. The Company maintains major technical and manufacturing centers in Europe, North America and Japan, and has sales offices located throughout the world. The Company s diverse customer base includes life science, pharmaceutical, biotechnology and molecular diagnostic research companies, academic institutions, advanced materials and semiconductor manufacturers and government agencies.

Management reports results on the basis of the following two segments:

- *Scientific Instruments.* The operations of this segment include the design, manufacture and distribution of advanced instrumentation and automated solutions based on magnetic resonance technology, mass spectrometry technology, gas chromatography technology, X-ray technology, spark-optical emission spectroscopy technology, atomic force microscopy technology, stylus and optical metrology technology, and infrared and Raman molecular spectroscopy technology. Typical customers of the Scientific Instruments segment include: pharmaceutical, biotechnology and molecular diagnostic companies; academic institutions, medical schools and other non-profit organizations; clinical microbiology laboratories; government departments and agencies; nanotechnology, semiconductor, chemical, cement, metals and petroleum companies; and food, beverage and agricultural analysis companies and laboratories.

- *Energy & Supercon Technologies.* The operations of this segment include the design, manufacture and marketing of superconducting materials, primarily metallic low temperature superconductors, for use in magnetic resonance imaging, nuclear magnetic resonance, fusion energy research and other applications, and ceramic high temperature superconductors primarily for fusion energy research applications. Typical customers of the Energy & Supercon Technologies segment include companies in the medical industry, private and public research and development laboratories in the fields of fundamental and applied sciences and energy research and academic institutions and government agencies. The Energy & Supercon Technologies segment is also developing superconductors and superconducting-enabled devices for applications in power and energy, as well as industrial processing industries.

The Company has announced plans to sell a minority ownership position in its Bruker Energy & Supercon Technologies, Inc. (BEST) subsidiary through an initial public offering of the capital stock of BEST. The Company believes the offering will provide Bruker shareholders greater visibility into BEST s performance and growth and strengthen BEST s access to financing for its revenue growth initiatives, including the development of products for the renewable energy and energy infrastructure markets.

The financial statements represent the consolidated accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010 have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial information presented herein does not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of the results expected for the full year.

The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure.

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At March 31, 2011, except as described below, the Company s significant accounting policies and estimates, which are detailed in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, have not changed.

Revenue Recognition

The Company recognizes revenue from system sales when persuasive evidence of an arrangement exists, the price is fixed or determinable, title and risk of loss has been transferred to the customer and collectability of the resulting receivable is reasonably assured. Title and risk of loss is generally transferred to the customer upon receipt of signed customer acceptance for a system that has been shipped, installed, and for which the customer has been trained. As a result, the timing of customer acceptance or readiness could cause the Company s reported revenues to differ materially from expectations. When products are sold through an independent distributor or a strategic distribution partner that assumes responsibility for installation, the Company recognizes the system as revenue when the product has been shipped and title and risk of loss has been transferred. The Company s distributors do not have price protection rights or rights of return; however, products are warranted to be free from defect for a period that is typically one year. Revenue is deferred until cash is received when collectability is not reasonably assured, such as when a significant portion of the fee is due over one year after delivery, installation and acceptance of a system.

In September 2009, the Financial Accounting Standards Board (FASB) ratified Accounting Standards Update (ASU) 2009-13 Revenue Recognition (Topic 605) *Multiple-Deliverable Revenue Arrangements.* ASU 2009-13 amends existing revenue recognition accounting standards that are currently within the scope of ASC 605, Subtopic 25 *Multiple-Element Arrangements.* ASU2009-13 provides for three significant changes to the existing guidance for multiple element arrangements:

1. Removes the requirement to have objective and reliable evidence of fair value for undelivered elements in an arrangement. This may result in more deliverables being treated as separate units of accounting.

2. Modifies the manner in which arrangement consideration is allocated to the separately identified deliverables. ASU 2009-13 requires an entity to allocate revenue in an arrangement using its best estimate of selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (VSOE) or third-party evidence of selling price (TPE), if VSOE is not available. Each separate unit of accounting must have a selling price, which can be based on management s estimate when there is no other means (VSOE or TPE) to determine the selling price of that deliverable. The arrangement consideration is allocated based on the elements relative selling prices.

3. Eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method, which results in the discount in the transaction being evenly allocated to the separate units of accounting.

In September 2009, the FASB ratified ASU 2009-14 Software (Topic 985) *Certain Revenue Arrangements That Include Software Elements.* ASU 2009-14 amends existing revenue recognition accounting standards to remove tangible products that contain software components and non-software components that function together to deliver the products essential functionality from the scope of industry specific software revenue recognition guidance.

The Company adopted these new accounting standards at the beginning of its first fiscal quarter of 2011 on a prospective basis for transactions originating or materially modified after January 1, 2011. These accounting standards generally do not change the units of accounting for the Company s revenue transactions, and most products and services qualify as separate units of accounting as was the case under previous accounting guidance. The impact of adopting these new accounting standards was not material to the Company s financial statements for the three months ended March 31, 2011, and if they were applied in the same manner to 2010 and 2009 there would not have been a material impact to revenue recorded in 2010 or 2009 or any interim period therein.

The Company typically determines the selling price of its products and services based on VSOE. The Company determines VSOE based on its normal selling pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, the Company s policy requires a substantial majority of selling prices for a product or service to be within a reasonably narrow range. The Company also considers the class of customer, method of distribution and the geographies into which products and services are being sold when determining VSOE. The Company typically has had VSOE for its products and services. If VSOE cannot be established, which may occur in instances where a product or service has not been sold separately, stand-alone sales are too infrequent or product pricing is not within a sufficiently narrow range, the Company attempts to establish the selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. When the Company cannot determine VSOE or TPE, it uses ESP in its allocation of management consideration. The objective of ESP is to determine the price at which the Company would typically transact a stand-alone sale of the product or service. ESP is determined by considering a number of factors including the Company s pricing policies, internal costs and gross profit objectives, method of distribution, market research and information, recent technological trends, competitive landscape and geographies. The Company plans to analyze the selling prices used in its

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allocation of arrangement consideration, at a minimum, on an annual basis. Selling prices will be analyzed more frequently if a significant change in the Company s business necessitates more frequent analysis or if the Company experiences significant variances in its selling prices.

Revenue from the sale of accessories and parts is recognized upon shipment and service revenue is recognized as the services are performed.

The Company also has contracts for which it applies the percentage-of-completion model of revenue recognition and the milestone model of revenue recognition. Application of the percentage-of-completion method requires us to make reasonable estimates of the extent of progress toward completion of the contract and the total costs we will incur under the contract. Changes in the estimates of progress toward completion of the contract and the total costs could affect the timing of revenue recognition.

Other revenues are comprised primarily of research grants and licensing arrangements. Grant revenue is recognized when the requirements in the grant agreement are achieved. Licensing revenue is recognized ratably over the term of the related contract.

2. Acquisitions

In April 2011, the Company completed the acquisition of Michrom Bioresources, Inc., a privately owned company based in California, U.S.A. that provides high performance liquid chromatography instrumentation, accessories, and consumables to the life science market. The Company is in the process of determining the fair value of the consideration transferred and the related allocation to the assets acquired and liabilities assumed.

In October 2010, the Company completed the acquisition of Veeco Metrology Inc., a scanning probe microscopy and optical industrial metrology instruments business (the nano surfaces business), from Veeco Instruments Inc. (Veeco) for cash consideration of $230.4 million. The Company financed the acquisition with $167.6 million borrowed under a revolving credit agreement and the balance with cash on hand. The acquired business complements the Company s existing atomic force microscopy products and expands the Company s offerings to industrial and applied markets, specifically, in the fields of materials and nanotechnology research and analysis. Under the purchase agreement $22.9 million of the purchase price was paid into escrow pending the resolution of indemnification obligations and working capital obligations of the seller. At March 31, 2011, the Company has not completed the local business transfer of the part of the acquired business in China because it is in the process of establishing a legal entity. The Company paid approximately $7.2 million to Veeco for the net assets in China and has recorded this amount in other current assets because the Company expects to complete the local business transfer in the next twelve months.

The acquisition of the nano surfaces business is being accounted for under the acquisition method. The Company made the following adjustments in the first quarter of 2011 to its allocation of the consideration transferred (in millions):

	Acquisition Date Fair Values, as Initially Reported	Measurement Period Adjustments	Acquisition Date Fair Values, as Adjusted
Accounts receivable	$ 21.8	$	$ 21.8

Inventory		33.5				33.5
Other current assets		8.1				8.1
Property, plant and equipment		18.0				18.0
Intangible assets		110.5		2.0		112.5
Goodwill		51.0		(2.0)		49.0
Liabilities assumed		(12.5)				(12.5)
	$	230.4	$		$	230.4

The measurement period adjustments made during the first quarter of 2011 did not have a material impact on the results of operations for the three months ended March 31, 2011 and would not have had a material impact on the results of operations for the three months ended December 31, 2010. The Company has not yet completed the final allocation of the consideration transferred in connection with the nano surfaces business because of the local business transfer of the part of the acquired

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business in China. The Company will finalize the allocation within the measurement period.

The following table sets forth pro forma financial information reflecting the acquisition of the nano surfaces business as if the results of the nano surfaces business had been included in the Company s unaudited condensed consolidated statement of operations as of January 1, 2010 (in millions, except per share data):

		Three Months Ended March 31, 2010
Revenue	$	306.2
Net income attributable to Bruker Corporation		15.9
Net income per common share attributable to Bruker Corporation shareholders:		
Basic and diluted	$	0.10

The pro forma financial information presented above assumes that the acquisition occurred as of January 1, 2009. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of 2010.

3. Stock-Based Compensation

The Company s primary types of stock-based compensation are in the form of stock options and restricted stock. The Company recorded stock-based compensation expense for the three months ended March 31, 2011 and 2010 as follows (in millions):

	Three Months Ended March 31,			
		2011		2010
Stock options	$	1.6	$	1.3
Restricted stock		0.2		0.3
Total stock-based compensation, pre-tax		1.8		1.6
Tax benefit		0.3		0.3
Total stock-based compensation, net of tax	$	1.5	$	1.3

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

	2011	2010
Risk-free interest rate	2.56-3.12%	1.73-3.46%
Expected life	6.5 years	6.5 years

Volatility	57.2%	62.0%
Expected dividend yield	0.0%	0.0%

The risk-free interest rate is the yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected life assumption. Expected life is determined through the simplified method as defined in the SEC Staff Accounting Bulletin No. 110. The Company believes that this is the best estimate of the expected life of a new option. Expected volatility can be based on a number of factors but the Company currently believes that the exclusive use of historical volatility results in the best estimate of the grant-date fair value of employee stock options because it reflects the market s current expectations of future volatility. Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has no current plans to do so in the future. The terms of some of the Company s indebtedness also currently restrict its ability to pay dividends to its shareholders.

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Bruker Corporation Stock Plan

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

At March 31, 2011, the Company expects to recognize pre-tax stock-based compensation expense of $13.3 million associated with outstanding stock option awards granted under the Company s stock plans over the weighted average remaining service period of 2.2 years. In addition, the Company expects to recognize additional pre-tax stock-based compensation expense of $1.1 million associated with outstanding restricted stock awards granted under the Company s stock plans over the weighted average remaining service period of 1.2 years.

Bruker Energy & Supercon Technologies Stock Plan

In October 2009, the Board of Directors of BEST adopted the Bruker Energy & Supercon Technologies, Inc. 2009 Stock Option Plan (the BEST Plan). The BEST Plan provides for the issuance of up to 1,600,000 shares of BEST common stock in connection with awards under the BEST Plan. The BEST Plan allows a committee of the BEST Board of Directors to grant incentive stock options, non-qualified stock options and restricted stock awards. The Compensation Committee of the BEST Board of Directors has the authority to determine which employees will receive the awards, the amount of the awards and other terms and conditions of the award. Awards granted pursuant to the BEST Plan typically vest over a period of three to five years.

At March 31, 2011, the Company expects to recognize pre-tax stock-based compensation expense of $1.6 million associated with outstanding stock option awards granted under the BEST Plan over the weighted average remaining service period of 3.1 years.

4. Earnings Per Share

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

The following table sets forth the computation of basic and diluted average shares outstanding for the three months ended March 31, 2011 and 2010 (in millions, except per share amounts):

	Three Months Ended March 31,			
	2011		2010	
Net income attributable to Bruker Corporation	$	11.3	$	16.1
Weighted average common shares outstanding:				
Weighted average common shares outstanding-basic		165.1		164.1
Effect of dilutive securities:				
Stock options and restricted stock		1.6		1.5
		166.7		165.6
Net income per common share attributable to Bruker Corporation shareholders:				
Basic and diluted	$	0.07	$	0.10

Stock options to purchase approximately 0.1 million shares and 0.4 million shares were excluded from the computation of diluted earnings per share in the three months ended March 31, 2011 and 2010, respectively, as their effect would have been anti-dilutive.

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5. Fair Value of Financial Instruments

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

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

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

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

The Company measures the following financial assets and liabilities at fair value on a recurring basis. The following table sets forth the Company s financial instruments and presents them within the fair value hierarchy using the lowest level of input that is significant to the fair value measurement at March 31, 2011 (in millions):

	Total	Quoted Prices in Active Markets Available (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 80.5	$ 80.5	$	$
Restricted cash	3.0	3.0		
Foreign exchange contracts	0.6		0.6	
Embedded derivatives in purchase and delivery contracts	0.1		0.1	
Commodity contracts	0.3		0.3	
Long term restricted cash	4.5	4.5		
Total assets recorded at fair value	$ 89.0	$ 88.0	$ 1.0	$
Liabilities:				
Interest rate swap	$ 2.6	$	$ 2.6	$
Foreign exchange contracts	0.3		0.3	
Embedded derivatives in purchase and delivery contracts	0.8		0.8	
Fixed price commodity contracts	0.3		0.3	
Total liabilities recorded at fair value	$ 4.0	$	$ 4.0	$

The Company s financial instruments consist primarily of cash equivalents, restricted cash, derivative instruments consisting of forward foreign exchange contracts, commodity contracts, derivatives embedded in certain purchase and sale contracts and an interest rate swap, accounts receivable, short-term borrowings, accounts payable and long-term debt. The carrying amounts of the Company s cash equivalents, short-term investments and restricted cash, accounts receivable, short-term borrowings and accounts payable approximate fair value due to their short-term nature. Derivative assets and liabilities are measured at fair value on a recurring basis. The Company s long-term debt consists of variable rate arrangements with interest rates that reset every three months and as a result, reflect currently available terms and conditions. Consequently, the carrying value of the Company s long-term debt approximates fair value.

6. Inventories

Inventories consisted of the following as of March 31, 2011 and December 31, 2010 (in millions):

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	March 31, 2011	December 31, 2010
Raw materials	$ 163.1	$ 143.7
Work-in-process	204.0	174.8
Demonstration units	50.1	48.6
Finished goods	154.4	143.9
Inventories	$ 571.6	$ 511.0

The Company reduces the carrying value of its demonstration inventories for differences between its cost and estimated net realizable value through a charge to cost of product revenue that is based on a number of factors including, the age of the unit, the physical condition of the unit and an assessment of technological obsolescence. Amounts recorded in cost of revenue related to the write-down of demonstration units to net realizable value were $6.5 million and $5.6 million for the three months ended March 31, 2011 and 2010, respectively. Finished goods include in-transit systems that have been shipped to the Company s customers but not yet installed and accepted by the customer. As of March 31, 2011 and December 31, 2010 inventory-in-transit was $91.1 million and $85.3 million, respectively.

7. Goodwill and Other Intangible Assets

The following table sets forth the changes in the carrying amount of goodwill for the three months ended March 31, 2011 (in millions):

Balance at December 31, 2010	$ 98.3
Measurement period adjustments	(2.0)
Foreign currency impact	2.1
Balance at March 31, 2011	$ 98.4

Goodwill is not amortized, instead, goodwill is tested for impairment on a reporting unit basis annually, or on an interim basis when events or changes in circumstances warrant. The Company performed its annual test for impairment as of December 31, 2010 and determined that goodwill and other intangible assets were not impaired at that time. The Company did not identify any indicators of impairment during the three month period ended March 31, 2011 that would warrant an interim test.

The following is a summary of other intangible assets subject to amortization at March 31, 2011 and December 31, 2010 (in millions):

	March 31, 2011	December 31, 2010
	Gross Carrying Amount	