

VEECO INSTRUMENTS INC
Form 10-Q
October 31, 2011
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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 0-16244

VEECO INSTRUMENTS INC.

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

11-2989601
(I.R.S. Employer
Identification Number)

Terminal Drive
Plainview, New York
(Address of Principal Executive Offices)

11803
(Zip Code)

Registrant's telephone number, including area code: **(516) 677-0200**

Website: **www.veeco.com**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a Smaller reporting company)

Smaller reporting company

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

38,717,199 shares of common stock, \$0.01 par value per share, were outstanding as of the close of business on October 25, 2011.

Table of Contents

SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q (the Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Discussions containing such forward-looking statements may be found in Part I. Items 2 and 3 hereof, as well as within this Report generally. In addition, when used in this Report, the words believes, anticipates, expects, estimates, plans, intends and similar expressions are intended to identify forward-looking statements. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from projected results. These risks and uncertainties include, without limitation, the following:

- We may be adversely affected by the tightening of China's credit market.
- Our failure to successfully manage our outsourcing activities or failure of our outsourcing partners to perform as anticipated could adversely affect our results of operations;
- The reduction or elimination of foreign government subsidies and economic incentives may adversely affect the future order rate for our MOCVD equipment;
- Manufacturing interruptions or delays could affect our ability to meet customer demand, while the failure to estimate customer demand accurately could result in excess or obsolete inventory and/or liabilities to our suppliers for products no longer needed;
- We rely on a limited number of suppliers, some of whom are our sole source for particular components;
- Our backlog is subject to customer cancellation or modification and such cancellation could result in decreased sales and increased provisions for excess and obsolete inventory and/or liabilities to our suppliers for products no longer needed;
- Our sales to HB LED and data storage manufacturers are highly dependent on these manufacturers' sales for consumer electronics applications, which can experience significant volatility due to seasonal and other factors. This could materially adversely impact our future results of operations;
- Negative worldwide economic conditions could result in a decrease in our net sales and an increase in our operating costs, which could adversely affect our business and operating results;

- We are exposed to the risks of operating a global business, including the need to obtain export licenses for certain of our shipments and political risks in the countries we operate;
- We are exposed to risks associated with our entrance into the emerging solar industry;
- The timing of our orders, shipments, and revenue recognition may cause our quarterly operating results to fluctuate significantly;
- We operate in industries characterized by rapid technological change;
- We face significant competition;
- We depend on a limited number of customers that operate in highly concentrated industries;
- The cyclical nature of the industries we serve directly affects our business;
- Our sales cycle is long and unpredictable;
- Our inability to attract, retain, and motivate key employees could have a material adverse effect on our business;
- The price of our common shares may be volatile and could decline significantly;

Table of Contents

- We are subject to foreign currency exchange risks;
- The enforcement and protection of our intellectual property rights may be expensive and could divert our limited resources;
- We may be subject to claims of intellectual property infringement by others;
- Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses;
- We may be required to take additional impairment charges for goodwill and indefinite-lived intangible assets or definite-lived intangible and long-lived assets;
- Changes in accounting pronouncements or taxation rules or practices may adversely affect our financial results;
- We are subject to the internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act;
- We are subject to risks of non-compliance with environmental, health and safety regulations;
- We have significant operations in locations which could be materially and adversely impacted in the event of a natural disaster or other significant disruption;
- We have adopted certain measures that may have anti-takeover effects which may make an acquisition of our Company by another company more difficult; and
- The matters set forth in this Report generally, including the risk factors set forth in Part 2. Item 1A. Risk Factors.

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates, and beliefs. The Company does not undertake any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

Available Information

We file annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (the SEC). The public may obtain information by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov.

Internet Address

We maintain a website where additional information concerning our business and various upcoming events can be found. The address of our website is www.veeco.com. We provide a link on our website, under Investors' Financial Information - SEC Filings, through which investors can access our filings with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports. These filings are posted to our Internet site, as soon as reasonably practicable after we electronically file such material with the SEC.

Table of Contents

VEECO INSTRUMENTS INC.

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements:</u>
	<u>Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u> 5
	<u>Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010</u> 6
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u> 7
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
<u>Item 4.</u>	<u>Controls and Procedures</u> 32
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 33
<u>Item 1A.</u>	<u>Risk Factors</u> 33
<u>Item 2.</u>	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u> 33
<u>Item 6.</u>	<u>Exhibits</u> 34
<u>SIGNATURES</u>	35

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Veeco Instruments Inc. and Subsidiaries****Condensed Consolidated Statements of Income****(In thousands, except per share data)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 267,959	\$ 277,094	\$ 787,450	\$ 631,130
Cost of sales	143,025	139,711	396,204	336,828
Gross profit	124,934	137,383	391,246	294,302
Operating expenses (income):				
Selling, general and administrative	23,569	23,303	73,966	59,326
Research and development	26,404	15,250	69,927	39,121
Amortization	1,277	928	3,519	2,785
Restructuring				(179)
Other, net	(199)	(267)	(227)	184
Total operating expenses	51,051	39,214	147,185	101,237
Operating income	73,883	98,169	244,061	193,065
Interest (income) expense, net	(244)	1,637	1,141	5,182
Loss on extinguishment of debt			3,349	
Income from continuing operations before income taxes	74,127	96,532	239,571	187,883
Income tax provision	21,510	2,845	72,657	14,130
Income from continuing operations	52,617	93,687	166,914	173,753
Discontinued operations:				
Loss from discontinued operations before income taxes	(23,839)	(10,831)	(91,574)	(12,815)
Income tax benefit	(7,085)	(3,307)	(32,371)	(3,662)
Loss from discontinued operations	(16,754)	(7,524)	(59,203)	(9,153)
Net income	35,863	86,163	107,711	164,600
Net loss attributable to noncontrolling interest				
Net income	\$ 35,863	\$ 86,163	\$ 107,711	\$ 164,600
Income (loss) per common share:				
Basic:				
Continuing operations	\$ 1.34	\$ 2.35	\$ 4.16	\$ 4.40
Discontinued operations	(0.43)	(0.19)	(1.48)	(0.23)
Income	\$ 0.91	\$ 2.16	\$ 2.68	\$ 4.17
Diluted :				

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Continuing operations	\$	1.31	\$	2.22	\$	3.98	\$	4.12
Discontinued operations		(0.41)		(0.18)		(1.41)		(0.21)
Income	\$	0.90	\$	2.04	\$	2.57	\$	3.91

Weighted average shares outstanding:

Basic		39,335		39,946		40,132		39,508
Diluted		40,069		42,258		41,941		42,175

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,					
	2011	2010	2011	2010				
Net income	\$	35,863	\$	86,163	\$	107,711	\$	164,600
Other comprehensive income (loss), net of tax								
Foreign currency translation		70		985		1,227		160
Unrealized (loss) gain on available-for-sale securities		(127)		252		93		252
Comprehensive income	\$	35,806	\$	87,400	\$	109,031	\$	165,012

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

Table of Contents

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 213,236	\$ 245,132
Short-term investments	212,727	394,180
Restricted cash	22,901	76,115
Accounts receivable, net	115,168	150,528
Inventories	127,518	108,487
Prepaid expenses and other current assets	60,107	34,328
Assets held for sale	2,341	
Deferred income taxes	6,975	13,803
Total current assets	760,973	1,022,573
Property, plant and equipment at cost, net	76,232	42,320
Goodwill	56,271	52,003
Deferred income taxes	2,998	9,403
Intangible assets, net	27,097	16,893
Other assets	10,652	4,842
Total assets	\$ 934,223	\$ 1,148,034
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 44,784	\$ 32,220
Accrued expenses and other current liabilities	135,003	183,010
Deferred profit	5,911	4,109
Income taxes payable	4,446	56,369
Liabilities of discontinued segment held for sale	5,359	5,359
Current portion of long-term debt	243	101,367
Total current liabilities	195,746	382,434
Long-term debt	2,470	2,654
Other liabilities	755	434
Total equity	735,252	762,512
Total liabilities and equity	\$ 934,223	\$ 1,148,034

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

Table of Contents

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2011	2010
Operating activities		
Net income	\$ 107,711	\$ 164,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,291	8,339
Amortization of debt discount	1,260	2,269
Non-cash equity-based compensation	9,472	6,222
Non-cash restructuring		(179)
Loss on extinguishment of debt	3,349	
Deferred income taxes	6,800	(37,850)
Excess tax benefits from stock option exercises	(8,601)	
Discontinued operations	44,381	9,444
Changes in operating assets and liabilities:		
Accounts receivable	36,222	(61,499)
Inventories	(32,639)	(24,579)
Prepaid expenses and other current assets	(32,645)	(2,159)
Accounts payable	12,494	19,908
Accrued expenses, deferred profit and other current liabilities	(49,685)	95,742
Income taxes payable	(43,023)	43,205
Other, net	(4,292)	(23,889)
Discontinued operations		(11,703)
Net cash provided by operating activities	60,095	187,871
Investing activities		
Capital expenditures	(47,516)	(8,023)
Payments for net assets of businesses acquired	(28,273)	
Transfers from (to) restricted cash	53,216	(31,581)
Proceeds from the maturity of CDARS		213,641
Proceeds from sales of short-term investments	667,216	11,013
Payments for purchases of short-term investments	(486,639)	(246,514)
Other	110	1,695
Net cash provided by (used in) investing activities	158,114	(59,769)
Financing activities		
Proceeds from stock option exercises	9,975	36,060
Restricted stock tax withholdings	(2,919)	(2,898)
Excess tax benefits from stock option exercises	8,601	
Purchases of treasury stock	(162,077)	(31,602)
Repayments of long-term debt	(105,745)	(157)
Net cash (used in) provided by financing activities	(252,165)	1,403
Effect of exchange rate changes on cash and cash equivalents	2,060	139
Net (decrease) increase in cash and cash equivalents	(31,896)	129,644
Cash and cash equivalents at beginning of year	245,132	148,500
Cash and cash equivalents at end of year	\$ 213,236	\$ 278,144

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Non-cash investing and financing activities

Transfers from property, plant and equipment to inventory	\$	\$	1,114
Transfers from inventory to property, plant and equipment			850
Sale of property, plant and equipment with note receivable			140

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

Table of Contents**Veeco Instruments Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Veeco Instruments Inc. (together with its consolidated subsidiaries, Veeco, the Company or we) have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the three and nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Consistent with prior years, we report interim quarters, other than fourth quarters which always end on December 31, on a 13-week basis ending on the last Sunday within such period. The interim quarter ends are determined at the beginning of each year based on the 13-week quarters. The 2011 interim quarter ends are April 3, July 3 and October 2. The 2010 interim quarter ends were March 28, June 27 and September 26. For ease of reference, we report these interim quarter ends as March 31, June 30 and September 30 in our interim condensed consolidated financial statements.

Income Per Common Share

The following table sets forth the reconciliation of basic weighted average shares outstanding and diluted weighted average shares outstanding (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	39,335	39,946	40,132	39,508
Dilutive effect of stock options and restricted stock	734	1,301	983	1,540
Dilutive effect of convertible notes		1,011	826	1,127
Diluted weighted average shares outstanding	40,069	42,258	41,941	42,175

Basic income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding during the period. For the three and nine months ended September 30, 2011 and 2010, no shares were excluded from the computation of diluted weighted average shares outstanding.

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

During the second quarter of 2011, the entire outstanding principal balance of our convertible debt was converted, with the principal amount paid in cash and the conversion premium paid in shares. The convertible notes met the criteria for determining the effect of the assumed conversion using the treasury stock method of accounting, since we had the ability and the intent to settle the principal amount of the notes in cash. Using the treasury stock method, it was determined that the impact of the assumed conversion for the nine months ended September 30, 2011, had a dilutive effect of 0.8 million common equivalent shares and for the three and nine months ended September 30, 2010, had a diluted effect of 1.0 million and 1.1 million common equivalent shares, respectively. The effect of the assumed converted shares is dependent on the stock price at the time of the conversion. See Note 7 for further details on our debt.

Derivative Financial Instruments

We use derivative financial instruments to minimize the impact of foreign exchange rate changes on earnings and cash flows. In the normal course of business, our operations are exposed to fluctuations in foreign exchange rates. In order to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known foreign currency exposures, we enter into monthly forward contracts. We do not use derivative financial instruments for trading or speculative purposes. Our forward contracts are not expected to subject us

Table of Contents

to material risks due to exchange rate movements because gains and losses on these contracts are intended to offset exchange gains and losses on the underlying assets and liabilities. The forward contracts are marked-to-market through earnings. We conduct our derivative transactions with highly rated financial institutions in an effort to mitigate any material credit risk.

The aggregate foreign currency exchange (loss) gain included in determining the condensed consolidated results of operations was approximately \$(0.2) million and \$(0.7) million during the three and nine months ended September 30, 2011, respectively and approximately \$0.1 million and \$(0.3) million during the three and nine months ended September 30, 2010, respectively. Included in the aggregate foreign currency exchange (loss) gain were (losses) gains related to forward contracts of \$(0.3) million and \$0.5 million during the three and nine months ended September 30, 2011, respectively and \$(0.1) million and less than \$(0.1) million during the three and nine months ended September 30, 2010, respectively. These amounts were recognized and are included in Other, net in the accompanying Condensed Consolidated Statements of Income.

As of September 30, 2011, \$0.1 million of losses related to forward contracts were included in accrued expenses and other current liabilities and were subsequently paid in October 2011. As of December 31, 2010, approximately \$0.3 million of gains related to forward contracts were included in prepaid expenses and other current assets and were subsequently received in January 2011. Monthly forward contracts with a notional amount of \$1.4 million, entered into in September 2011 for October 2011, will be settled in October 2011.

The weighted average notional amount of derivative contracts outstanding during the three and nine months ended September 30, 2011 were approximately \$4.6 million and \$13.2 million, respectively.

Note 2 Business Combination

On April 4, 2011, we purchased a privately-held company which supplies certain components to our business for \$28.3 million in cash. As a result of this purchase, we acquired \$16.4 million of definite-lived intangibles, of which \$13.6 million related to core technology, and \$15.1 million of goodwill. The financial results of this acquisition are included in our LED & Solar segment as of the acquisition date. We have determined that this acquisition does not constitute a material business combination and therefore are not including pro forma financial statements in this report.

Note 3 Discontinued Operations

Copper, Indium, Gallium, Selenide (CIGS) Solar Systems Business

On July 28, 2011, we announced a plan to discontinue our CIGS solar systems business. The action, which was completed on September 27, 2011 and impacted approximately 80 employees, was in response to the dramatically reduced cost of mainstream solar technologies driven by significant reductions in prices, large industry investment, a lower than expected end market acceptance for CIGS technology and technical barriers in scaling CIGS. This business was previously included as part of our LED & Solar segment.

Accordingly, the results of operations for the CIGS solar systems business have been recorded as discontinued operations in the accompanying Condensed Consolidated Statements of Income for all periods presented. During the nine months ended September 30, 2011, total discontinued operations include charges totaling \$69.8 million. These charges include an asset impairment charge totaling \$6.2 million, a goodwill write-off of \$10.8 million, an inventory write-off totaling \$27.0 million, charges to settle contracts totaling \$22.1 million, lease related charges totaling \$1.4 million and personnel severance charges totaling \$2.3 million. During the three months ended September 30, 2011, total discontinued operations include charges totaling \$19.0 million. These charges include a goodwill write-off totaling \$10.8 million, a charge to settle contracts totaling \$11.0 million, lease related charges totaling \$1.4 million and personnel severance charges totaling \$2.3 million, partially offset by a \$6.5 million recovery of cost relating to inventory written-off during the second quarter.

Metrology Divestiture

On August 15, 2010, we signed a definitive agreement to sell our Metrology business to Bruker Corporation (Bruker) comprising our entire Metrology reporting segment for \$229.4 million. Accordingly, Metrology's operating results were accounted for as discontinued operations and the related assets and liabilities were classified as held for sale. The sales transaction closed on October 7, 2010, except for assets located in China due to local restrictions. Total proceeds, which included a working capital adjustment of \$1 million, totaled \$230.4 million of which \$7.2 million

Table of Contents

relates to the assets in China. The Company recorded a liability to defer the gain of \$5.4 million on disposal related to the assets in China. As part of our agreement with Bruker, \$22.9 million of proceeds is held in escrow and is restricted from use for one year from the closing date of the transaction to secure potential specified losses, if any, arising out of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents. As of October 6, 2011 the restriction relating to the escrowed proceeds of \$22.9 million was released.

Summary information related to discontinued operations is as follows (*in thousands*):

	September 30, 2011		Three months ended			
	Solar Systems	Metrology	Total	Solar Systems	Metrology	Total
Net sales	\$	\$	\$	\$	\$ 31,880	\$ 31,880
Cost of sales		(6,449)	(6,449)	1,901	16,257	18,158
Gross profit		6,449	6,449	(1,901)	15,623	13,722
Total operating expenses		29,736	552	4,619	19,934	24,553
Operating loss	\$	(23,287)	\$ (552)	\$ (6,520)	\$ (4,311)	\$ (10,831)
Net loss from discontinued operations, net of tax	\$	(16,366)	\$ (388)	\$ (2,583)	\$ (4,941)	\$ (7,524)

	September 30, 2011		Nine months ended			
	Solar Systems	Metrology	Total	Solar Systems	Metrology	Total
Net sales	\$	\$	\$	\$ 2,103	\$ 92,011	\$ 94,114
Cost of sales		30,904	30,904	5,383	47,822	53,205
Gross profit		(30,904)	(30,904)	(3,280)	44,189	40,909
Total operating expenses		59,224	1,446	13,081	40,643	53,724
Operating (loss) income	\$	(90,128)	\$ (1,446)	\$ (16,361)	\$ 3,546	\$ (12,815)
Net (loss) income from discontinued operations, net of tax	\$	(58,268)	\$ (935)	\$ (9,894)	\$ 741	\$ (9,153)

Liabilities of discontinued segment held for sale, totaling \$5.4 million, as of September 30, 2011 and December 31, 2010, consist of the deferred gain related to the assets in China.

Note 4 Equity*Equity-based Compensation*

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Equity-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over each employee's requisite service period. The following compensation expense was included in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010 (*in thousands*):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Equity-based compensation expense	\$ 2,951	\$ 2,356	\$ 9,472	\$ 6,222

As a result of the discontinuance of our CIGS solar systems business, equity-based compensation expense related to Solar employees totaling \$0.1 million and \$0.7 million, and \$0.3 million and \$0.8 million has been classified as discontinued operations in determining the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010, respectively.

As a result of the sale of our Metrology segment to Bruker, equity-based compensation expense related to Metrology employees totaling \$4.9 million and \$5.6 million has been classified as discontinued operations in determining the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2010, respectively.

Table of Contents

As of September 30, 2011, the total unrecognized compensation costs related to nonvested stock and stock option awards was \$17.0 million and \$14.8 million, respectively. The related weighted average period over which we expect that such unrecognized compensation costs will be recognized is approximately 3.2 years for nonvested stock awards and 2.0 years for option awards.

Stock Option and Restricted Stock Activity

A summary of our restricted stock awards including restricted stock units for the nine months ended September 30, 2011, is presented below:

	Shares (000 s)		Weighted- Average Grant-Date Fair Value
Nonvested at December 31, 2010	616	\$	19.06
Granted	279		51.11
Vested	(173)		14.33
Forfeited (including cancelled awards)	(87)		26.83
Nonvested at September 30, 2011	635	\$	33.36

A summary of our stock option awards for the nine months ended September 30, 2011, is presented below:

	Shares (000s)		Weighted- Average Exercise Price	Aggregate Intrinsic Value (000s)	Weighted- Average Remaining Contractual Life (in years)
Outstanding at December 31, 2010	2,569	\$	19.71		
Granted	368		50.65		
Exercised	(638)		15.63		
Forfeited (including cancelled options)	(141)		29.17		
Outstanding at September 30, 2011	2,158	\$	25.56	\$ 19,273	6.1
Options exercisable at September 30, 2011	1,006	\$	17.92	\$ 12,482	4.6

Treasury Stock

On August 24, 2010, our Board of Directors authorized the repurchase of up to \$200 million of our common stock. This repurchase program was completed by August 19, 2011. Repurchases were made from time to time on the open market in accordance with applicable federal securities laws. During the three months ended September 30, 2011, we purchased 3,994,940 shares for \$154.3 million (including transaction costs) under the program at an average cost of \$38.63 per share. During the nine months ended September 30, 2011, we purchased 4,160,228 shares for \$162.1 million (including transaction costs) under the program at an average cost of \$38.96 per share. These stock repurchases are included as a reduction to Equity in the Condensed Consolidated Balance Sheet.

Table of Contents**Note 5 Balance Sheet Information***Short-term Investments*

Available-for-sale securities consist of the following (*in thousands*):

	September 30, 2011			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Commercial paper	\$ 24,284	\$ 6	\$	\$ 24,290
FDIC insured corporate bonds	137,138	153		137,291
Treasury bills	51,116	30		51,146
Total available-for-sale securities	\$ 212,538	\$ 189	\$	\$ 212,727

	December 31, 2010			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Commercial paper	\$ 128,527	\$ 61	\$	\$ 128,588
FDIC insured corporate bonds	129,353	24		129,377
Treasury bills	136,203	12		136,215
Total available-for-sale securities	\$ 394,083	\$ 97	\$	\$ 394,180

During the three and nine months ended September 30, 2011, available-for-sale securities were sold for total proceeds of \$292.9 million and \$667.2 million, respectively. The gross realized gains on these sales were \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2011, respectively. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding (losses) gains on available-for-sale securities amounting to \$(0.1) million and \$0.1 million for the three and nine months ended September 30, 2011, respectively, have been included in accumulated other comprehensive income. During the three and nine months ended September 30, 2010, available-for-sale securities were sold for total proceeds of \$11.0 million. The gross realized gains on these sales were minimal for the three and nine months ended September 30, 2010. Net unrealized holding gains on available-for-sale securities amounting to \$0.2 million for the three and nine months ended September 30, 2010 have been included in accumulated other comprehensive income.

Contractual maturities of available-for-sale debt securities at September 30, 2011, are as follows (*in thousands*):

	Estimated Fair Value	
Due in one year or less	\$	31,503
Due in 1 - 2 years		181,224
Total investments in debt securities	\$	212,727

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Restricted Cash

As of September 30, 2011, we had \$22.9 million of restricted cash relating to the proceeds received from the sale of our Metrology segment. This cash is held in escrow and is restricted from use for one year from the closing date of the transaction to secure potential losses, if any, arising out of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents. The restriction relating to the escrowed proceeds totaling \$22.9 million from the sale of our Metrology segment was released on October 6, 2011.

Table of Contents

Accounts Receivable, net

Accounts receivable are shown net of the allowance for doubtful accounts of \$0.5 million as of September 30, 2011 and December 31, 2010.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market. Inventories consist of (*in thousands*):

	September 30, 2011	December 31, 2010
Raw materials	\$ 62,678	\$ 49,953
Work in process	28,026	33,181
Finished goods	36,814	25,353
	\$ 127,518	\$ 108,487

Goodwill

Changes in our goodwill are as follows (in thousands):

	Nine months ended September 30, 2011
Beginning Balance	\$ 52,003
Write-off (see Note 3)	(10,836)
Acquisition (see Note 2)	15,104
Ending Balance	\$ 56,271

Accrued Warranty

We estimate the costs that may be incurred under the warranty we provide and record a liability in the amount of such costs at the time the related revenue is recognized. Factors that affect our warranty liability include product failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. We periodically assess the adequacy of our recognized warranty liability and adjust the amount as necessary. Changes in our warranty liability during the period are as follows (*in thousands*):

Nine months ended

	September 30,	
	2011	2010
Balance as of the beginning of period	\$ 9,238	\$ 6,675
Warranties issued during the period	7,935	7,242
Settlements made during the period	(6,870)	(4,906)
Balance as of the end of period	\$ 10,303	\$ 9,011

Note 6 Segment Information

We manage the business, review operating results and assess performance, as well as allocate resources, based upon two separate reporting segments that reflect the market focus of each business. The Light Emitting Diode (LED) & Solar segment consists of metal organic chemical vapor deposition (MOCVD) systems, molecular beam epitaxy (MBE) systems and thermal deposition sources. These systems are primarily sold to customers in the high-brightness LED (HB LED) and solar industries, as well as to scientific research customers. This segment has manufacturing, product development and marketing sites in Somerset, New Jersey and St. Paul, Minnesota. By the end of the third quarter, we discontinued our CIGS solar systems business located in Tewksbury, Massachusetts and Clifton Park, New York (see Note 3). The Data Storage segment consists of the ion beam etch, ion beam deposition, diamond-like carbon, physical vapor deposition and dicing and slicing products sold primarily to customers in the data storage industry. This segment has manufacturing, product development and marketing sites in Plainview, New

Table of Contents

York, Camarillo, California and Ft. Collins, Colorado.

We evaluate the performance of our reportable segments based on income (loss) from continuing operations before interest, income taxes, amortization and certain items (Segment profit (loss)), which is the primary indicator used to plan and forecast future periods. The presentation of this financial measure facilitates meaningful comparison with prior periods, as management believes Segment profit (loss) reports baseline performance and thus provides useful information. Certain items include restructuring credits, equity-based compensation expense and loss on extinguishment of debt. The accounting policies of the reportable segments are the same as those described in the summary of critical accounting policies.

The following tables present certain data pertaining to our reportable product segments and a reconciliation of segment profit (loss) to income (loss) from continuing operations before income taxes for the three and nine months ended September 30, 2011 and 2010, respectively, and goodwill and total assets as of September 30, 2011 and December 31, 2010 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate	Total
Three months ended September 30, 2011				
Net sales	\$ 233,865	\$ 34,094	\$	\$ 267,959
Segment profit (loss)	\$ 72,815	\$ 7,877	\$ (2,581)	\$ 78,111
Interest, net			(244)	(244)
Amortization	924	353		1,277
Equity-based compensation	992	339	1,620	2,951
Income (loss) from continuing operations before income taxes	\$ 70,899	\$ 7,185	\$ (3,957)	\$ 74,127
Three months ended September 30, 2010				
Net sales	\$ 242,613	\$ 34,481	\$	\$ 277,094
Segment profit (loss)	\$ 97,904	\$ 9,211	\$ (5,662)	\$ 101,453
Interest, net			1,637	1,637
Amortization	487	383	58	928
Equity-based compensation	324	258	1,774	2,356
Income (loss) from continuing operations before income taxes	\$ 97,093	\$ 8,570	\$ (9,131)	\$ 96,532
Nine months ended September 30, 2011				
Net sales	\$ 667,697	\$ 119,753	\$	\$ 787,450
Segment profit (loss)	\$ 232,848	\$ 33,158	\$ (8,954)	\$ 257,052
Interest, net			1,141	1,141
Amortization	2,364	1,072	83	3,519
Equity-based compensation	2,567	999	5,906	9,472
Loss on extinguishment of debt			3,349	3,349
Income (loss) from continuing operations before income taxes	\$ 227,917	\$ 31,087	\$ (19,433)	\$ 239,571
Nine months ended September 30, 2010				
Net sales	\$ 537,662	\$ 93,468	\$	\$ 631,130
Segment profit (loss)	\$ 192,670	\$ 21,382	\$ (12,159)	\$ 201,893
Interest, net			5,182	5,182
Amortization	1,461	1,149	175	2,785
Equity-based compensation	939	781	4,502	6,222
Restructuring		(179)		(179)
	\$ 190,270	\$ 19,631	\$ (22,018)	\$ 187,883

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Income (loss) from continuing operations
before income taxes

	LED & Solar		Data Storage		Unallocated Corporate		Total
As of September 30, 2011							
Goodwill	\$	56,271	\$		\$		\$ 56,271
Total assets	\$	349,498	\$	58,089	\$	526,636	\$ 934,223
As of December 31, 2010							
Goodwill	\$	52,003	\$		\$		\$ 52,003
Total assets	\$	323,096	\$	61,691	\$	763,247	\$ 1,148,034

As of September 30, 2011 and December 31, 2010 unallocated corporate total assets were comprised principally of cash and cash equivalents, short-term investments and restricted cash.

Table of Contents

Note 7 Debt

Mortgage Payable

Long-term debt consists of a mortgage payable, with approximately \$2.7 million outstanding at September 30, 2011. The mortgage accrues interest at an annual rate of 7.91%, and the final payment is due on January 1, 2020. The fair value of the mortgage at September 30, 2011 was approximately \$2.9 million.

Convertible Notes

Our convertible notes were initially convertible into 36.7277 shares of common stock per \$1,000 principal amount of notes (equivalent to a conversion price of \$27.23 per share or a premium of 38% over the closing market price for Veeco's common stock on April 16, 2007). We paid interest on these notes on April 15 and October 15 of each year. The notes were unsecured and were effectively subordinated to all of our senior and secured indebtedness and to all indebtedness and other liabilities of our subsidiaries.

During the first quarter of 2011, at the option of the holders, \$7.5 million of notes were tendered for conversion at a price of \$45.95 per share in a net share settlement. We paid the principal amount of \$7.5 million in cash and issued 111,318 shares of our common stock. We recorded a loss on extinguishment totaling \$0.3 million related to these transactions.

During the second quarter of 2011, we issued a notice of redemption on the remaining notes outstanding. In lieu of redemption, at the option of the holders, the notes were tendered for conversion at a price of \$50.59 per share, calculated as defined in the indenture relating to the notes, in a net share settlement. Accordingly, we paid the principal amount of \$98.1 million in cash and issued 1,660,095 shares of our common stock. We recorded a loss on extinguishment totaling \$3.0 million related to these transactions.

Certain accounting guidance requires a portion of convertible debt to be allocated to equity. This guidance requires issuers of convertible debt that can be settled in cash to separately account for (*i.e.*, bifurcate) a portion of the debt associated with the conversion feature and reclassify this portion to equity. The liability portion, which represents the fair value of the debt without the conversion feature, is accreted to its face value over the life of the debt using the effective interest method by amortizing the discount between the face amount and the fair value. The amortization is recorded as interest expense. Our convertible notes were subject to this accounting guidance. This additional interest expense did not require the use of cash.

The components of interest expense recorded on the notes were as follows (*in thousands*):

Three months ended

Nine months ended

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

	September 30,		September 30,	
	2011	2010	2011	2010
Contractual interest	\$	\$ 1,089	\$ 2,025	\$ 3,268
Accretion of the discount on the Notes		769	1,260	2,269
Total interest expense on the Notes	\$	\$ 1,858	\$ 3,285	\$ 5,537
Effective interest rate		0.0%	6.7%	7.0%

Table of Contents

The carrying amounts of the liability and equity components of the notes were as follows (*in thousands*):

	September 30, 2011	December 31, 2010
Carrying amount of the equity component	\$	\$ 16,318
Principal balance of the liability component	\$	\$ 105,574
Less: unamortized discount		4,436
Net carrying value of the liability component	\$	\$ 101,138

Note 8 Fair Value Measurements

We have categorized our assets and liabilities recorded at fair value based upon the fair value hierarchy. The levels of fair value hierarchy are as follows:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.
- Level 2 inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable and are typically based on our own assumptions, including situations where there is little, if any, market activity.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, we categorize such assets or liabilities based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs.

The major categories of assets and liabilities measured on a recurring basis, at fair value, as of September 30, 2011 and December 31, 2010, are as follows (*in millions*):

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Treasury bills	\$ 51.1	\$ 24.5	\$	\$ 75.6
FDIC insured corporate bonds	137.3	8.9		146.2
Commercial paper	24.3	70.4		94.7
Derivative instrument		0.1		0.1
Total	\$ 212.7	\$ 103.9	\$	\$ 316.6

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Treasury bills	\$ 136.2	\$ 79.5	\$	\$ 215.7
FDIC insured corporate bonds	129.4			129.4
Commercial paper	128.6	62.8		191.4
Money market instruments		0.6		0.6
Derivative instrument		0.3		0.3
Total	\$ 394.2	\$ 143.2	\$	\$ 537.4

Commercial paper and treasury bills that are classified as cash equivalents are carried at cost, which approximates market value and included in Level 2. Accordingly, no gains or losses (realized/unrealized) have been incurred for cash equivalents. All investments classified as available-for-sale contain quoted prices in active markets.

Derivative instruments include foreign currency forward contracts to hedge certain foreign currency transactions. Derivative instruments are valued using standard calculations/models that are primarily based on

Table of Contents

observable inputs, including foreign currency exchange rates, volatilities and interest rates.

The major categories of assets and liabilities measured on a nonrecurring basis, at fair value, as of September 30, 2011 and December 31, 2010, are as follows (*in millions*):

	September 30, 2011			Total
	Level 1	Level 2	Level 3	
Property, plant and equipment, net	\$	\$	\$ 76.2	\$ 76.2
Goodwill			56.3	56.3
Intangible assets, net			27.1	27.1
Total	\$	\$	\$ 159.6	\$ 159.6

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Property, plant and equipment, net	\$	\$	\$ 42.3	\$ 42.3
Goodwill			52.0	52.0
Intangible assets, net			16.9	16.9
Total	\$	\$	\$ 111.2	\$ 111.2

Table of Contents

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

Executive Summary

We make equipment to develop and manufacture light emitting diodes (LEDs), solar cells, hard-disk drives and other devices. We have leading technology positions in our two segments: LED & Solar and Data Storage.

In our LED & Solar segment, we design and manufacture metal organic chemical vapor deposition (MOCVD) systems, molecular beam epitaxy (MBE) systems and thermal deposition sources which we sell to manufacturers of high brightness LEDs (HB LED) and solar cells, as well as to scientific research customers. By the end of the third quarter we discontinued our Copper, Indium, Gallium, Selenide (CIGS) solar systems business.

In our Data Storage segment, we design and manufacture ion beam etch, ion beam deposition, diamond-like carbon, physical vapor deposition, chemical vapor deposition, and dicing and slicing systems primarily used to create thin film magnetic heads (TFMHs) that read and write data on hard disk drives.

We support our customers through product development, manufacturing, sales and service sites in the U.S., Korea, Taiwan, China, Singapore, Japan, England, Germany and other locations.

Highlights of the Third Quarter of 2011

- Revenue was \$268.0 million, a 3% decrease from the third quarter of 2010.
- Orders were \$133.1 million, a 52% decrease from the third quarter of 2010.
- Net income from continuing operations was \$52.6 million, or \$1.31 per share, compared to \$93.7 million, or \$2.22 per share, in the third quarter of 2010.
- Gross margins were 46.6%, compared to 49.6% in the third quarter of 2010.

Outlook

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Veeco's fourth quarter 2011 revenue is currently forecasted to be between \$175 million and \$215 million. Earnings per share are currently forecasted to be between \$0.46 to \$0.78 on a GAAP basis. For the full year, Veeco's guidance is \$963 million to \$1.0 billion, with earnings per share forecasted to be between \$4.49 - \$4.79 on a GAAP basis.

Despite the difficult overall environment, the Company expects to deliver \$1 billion in 2011 revenue at the high end of guidance. This accomplishment demonstrates our technology leadership position, close connectivity to our global customers and ability to execute in a challenging environment.

Our current expectation is orders will remain depressed for a few quarters. While there are many data points indicating that LED lighting is accelerating, weak backlighting demand continues to cause low factory utilization rates. In Data Storage, planned industry consolidations combined with weak PC demand is causing our key customers to delay capital spending. In addition, global macro-economic concerns will likely have a dampening effect on our business heading into 2012. With our variable cost model, combined with plans to decrease spending levels to reflect the challenging business environment, we expect to remain profitable next year.

While we do not know how long this slowdown will last, LED pricing declines will continue to stimulate demand for solid state lighting on a global basis. We expect wide-spread adoption of LED lighting led first by the commercial, municipal and industrial sectors, which make up 75% of the lighting market, followed by residential users as economic benefits of using LED-based products become more apparent. Despite some level of cyclical which is to be expected, there is a strong multi-year growth opportunity for MOCVD, aligning with our overall expectation of 5,000+ reactors from 2011 to 2015.

Our outlook discussion above constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our expectations regarding future results are subject to risks and uncertainties. Our actual results may differ materially from those anticipated. Risks associated with our ability to achieve these results are set forth in Items 1, 1A, 3, 7 and 7A in our annual report on Form 10-K for the year ended December 31, 2010, as well as any modifications or revisions to risk factors contained in our subsequent filings with the SEC.

You should not place undue reliance on any forward-looking statements, which speak only as of the dates they are made.

Table of Contents**Results of Operations:****Three Months Ended September 30, 2011 and 2010**

Consistent with prior years, we report interim quarters, other than fourth quarters which always end on December 31, on a 13-week basis ending on the last Sunday within such period. The interim quarter ends are determined at the beginning of each year based on the 13-week quarters. The 2011 interim quarter ends are April 3, July 3 and October 2. The 2010 interim quarter ends were March 28, June 27 and September 26. For ease of reference, we report these interim quarter ends as March 31, June 30 and September 30 in our interim condensed consolidated financial statements.

The following table shows our Condensed Consolidated Statements of Income, percentages of net sales, and comparisons between the three months ended September 30, 2011 and 2010 (*dollars in thousands*):

	2011		Three months ended September 30, 2010		Dollar and Percentage Change Period to Period			
Net sales	\$	267,959	100.0%	\$	277,094	100.0%	\$ (9,135)	(3.3)%
Cost of sales		143,025	53.4		139,711	50.4	3,314	2.4
Gross profit		124,934	46.6		137,383	49.6	(12,449)	(9.1)
Operating expenses (income):								
Selling, general and administrative		23,569	8.8		23,303	8.4	266	1.1
Research and development		26,404	9.9		15,250	5.5	11,154	73.1
Amortization		1,277	0.5		928	0.3	349	37.6
Other, net		(199)	(0.1)		(267)	(0.1)	68	(25.5)
Total operating expenses		51,051	19.1		39,214	14.2	11,837	30.2
Operating income		73,883	27.6		98,169	35.4	(24,286)	(24.7)
Interest (income) expense, net		(244)	(0.1)		1,637	0.6	(1,881)	*
Income from continuing operations before income taxes		74,127	27.7		96,532	34.8	(22,405)	(23.2)
Income tax provision		21,510	8.0		2,845	1.0	18,665	656.1
Income from continuing operations		52,617	19.6		93,687	33.8	(41,070)	(43.8)
Discontinued operations:								
Loss from discontinued operations before income taxes		(23,839)	(8.9)		(10,831)	(3.9)	(13,008)	120.1
Income tax benefit		(7,085)	(2.6)		(3,307)	(1.2)	(3,778)	114.2
Loss from discontinued operations		(16,754)	(6.3)		(7,524)	(2.7)	(9,230)	122.7
Net income	\$	35,863	13.4%	\$	86,163	31.1%	\$ (50,300)	(58.4)%

* Not Meaningful

Net Sales and Orders

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Net sales of \$268.0 million for the three months ended September 30, 2011 were down 3.3% compared to the prior year period. The following is an analysis of net sales and orders by segment and by region (*dollars in thousands*):

	Sales				Orders				Book to Bill Ratio	
	Three months ended September 30, 2011	September 30, 2010	Dollar and Percentage Change Period to Period		Three months ended September 30, 2011	September 30, 2010	Dollar and Percentage Change Period to Period		2011	2010
Segment Analysis										
LED & Solar	\$ 233,865	\$ 242,613	\$ (8,748)	(3.6)%	\$ 111,898	\$ 243,207	\$ (131,309)	(54)%	0.48	1.00
Data Storage	34,094	34,481	(387)	(1.1)	21,188	34,972	(13,784)	(39.4)	0.62	1.01
Total	\$ 267,959	\$ 277,094	\$ (9,135)	(3.3)%	\$ 133,086	\$ 278,179	\$ (145,093)	(52.2)%	0.50	1.00
Regional Analysis										
Americas	\$ 24,521	\$ 20,916	\$ 3,605	17.2%	\$ 15,941	\$ 23,428	\$ (7,487)	(32)%	0.65	1.12
Europe, Middle East and Africa (EMEA)	6,510	33,236	(26,726)	(80.4)	6,886	9,672	(2,786)	(28.8)	1.06	0.29
Asia Pacific (APAC)										
China	174,425	47,249	127,176	269.2	82,913	193,315	(110,402)	(57.1)	0.48	4.09
Taiwan	26,508	45,096	(18,588)	(41.2)	3,338	41,431	(38,093)	(91.9)	0.13	0.92
Korea	12,761	113,571	(100,810)	(88.8)	2,735	880	1,855	210.8	0.21	0.01
Other APAC	23,234	17,026	6,208	36.5	21,273	9,453	11,820	125.0	0.92	0.56
APAC	236,928	222,942	13,986	6.3	110,259	245,079	(134,820)	(55.0)	0.47	1.10
Total	\$ 267,959	\$ 277,094	\$ (9,135)	(3.3)%	\$ 133,086	\$ 278,179	\$ (145,093)	(52.2)%	0.50	1.00

Table of Contents

Sales decreased in both segments for the three months ended September 30, 2011 compared to the prior year period. LED & Solar sales were down 3.6% from the prior year period, primarily related to a decrease in sales volume (shipments in our MOCVD business decreased by 20.6% during the three months ended September 30, 2011 from the prior year period). Data Storage sales were down slightly compared to the prior year period. By region, net sales increased by 6.3% in APAC, primarily due to MOCVD sales to HB LED customers in China partially offset by a reduction in sales to customers in Korea. Sales in the Americas also increased 17.2%, primarily related to an increase in sales in our Data Storage segment. Net sales in EMEA decreased 80.4%, primarily due to reduced volume in our Data Storage segment and MOCVD business. We believe that there will continue to be period-to-period variations in the geographic distribution of sales.

Orders decreased in both segments for the three months ended September 30, 2011 compared to the prior year period. By segment, the 54.0% decrease in orders for LED & Solar was principally related to lower China and Taiwan MOCVD orders. The 39.4% decrease in Data Storage orders resulted from a slowdown in capital spending by our hard disk drive customers.

Our book-to-bill ratio for the three months ended September 30, 2011, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 0.50 to 1. Our backlog as of September 30, 2011 was \$389.2 million, compared to \$535.4 million as of December 31, 2010. During the three months ended September 30, 2011, we experienced a net backlog adjustment of approximately \$34.3 million. The adjustment consisted of \$31.5 million of order cancellations and \$2.8 million related to miscellaneous order adjustments. As of September 30, 2011, we had customer deposits and advanced billings of \$78.2 million.

Gross Profit

Gross profit, as a percentage of net sales, for the three months ended September 30, 2011, was 46.6%, compared to 49.6% in the prior year period. LED & Solar gross margins decreased to 46.2% from 49.4%, primarily resulting from a change in product mix. Sales in 2010 were principally from the K465i single chamber systems while 2011 also included the newly introduced MaxBright multi-chamber systems. Data Storage gross margins decreased to 49.8% from 50.8%, primarily resulting from a change in product mix.

Operating Expenses

Selling, general and administrative expenses remained generally flat in dollars and percentage of net sales. Research and development expenses increased \$11.2 million from the prior year period and increased as a percentage of net sales from 5.5% for the three months ended September 30, 2010 to 9.9% in the current period. The dollar increase was primarily due to continued product development in areas of high-growth for end market opportunities in our LED & Solar segment, primarily in our MOCVD business.

Income Taxes

Our provision for income taxes consists of U.S. federal, state and local and foreign taxes in amounts necessary to align our year-to-date tax provision with the effective tax rate we expect to achieve for the full year.

For the three months ended September 30, 2011, the Company had an effective tax rate of 29.0% and recorded a provision for income taxes of \$21.5 million from continuing operations. The effective tax rate was lower than the statutory tax rate primarily due to tax rate differences in the foreign jurisdictions in which the Company operates, the generation of research and development tax credits, and an income tax benefit related to the manufacturer's deduction under IRC Section 199.

For the three months ended September 30, 2010, the Company had an effective tax rate of 2.9% and recorded a provision for income taxes of \$2.8 million from continuing operations. The effective tax rate was lower than the statutory tax rate as a significant portion of the Company's deferred tax assets became realizable based on operating results for 2010.

Table of Contents**Results of Operations:****Nine Months Ended September 30, 2011 and 2010**

The following table shows our Condensed Consolidated Statements of Income, percentages of net sales, and comparisons between the nine months ended September 30, 2011 and 2010 (*dollars in thousands*):

	2011		Nine months ended September 30, 2010		Dollar and Percentage Change Period to Period				
Net sales	\$	787,450	100.0%	\$	631,130	100.0%	\$	156,320	24.8%
Cost of sales		396,204	50.3		336,828	53.4		59,376	17.6
Gross profit		391,246	49.7		294,302	46.6		96,944	32.9
Operating expenses (income):									
Selling, general and administrative									
		73,966	9.4		59,326	9.4		14,640	24.7
Research and development		69,927	8.9		39,121	6.2		30,806	78.7
Amortization		3,519	0.4		2,785	0.4		734	26.4
Restructuring					(179)	(0.0)		179	(100.0)
Other, net		(227)	(0.0)		184	0.0		(411)	*
Total operating expenses		147,185	18.7		101,237	16.0		45,948	45.4
Operating income		244,061	31.0		193,065	30.6		50,996	26.4
Interest expense, net		1,141	0.1		5,182	0.8		(4,041)	(78.0)
Loss on extinguishment of debt		3,349	0.4					3,349	*
Income from continuing operations before income taxes									
		239,571	30.4		187,883	29.8		51,688	27.5
Income tax provision		72,657	9.2		14,130	2.2		58,527	414.2
Income from continuing operations									
		166,914	21.2		173,753	27.5		(6,839)	(3.9)
Discontinued operations:									
Loss from discontinued operations before income taxes									
		(91,574)	(11.6)		(12,815)	(2.0)		(78,759)	614.6
Income tax benefit		(32,371)	(4.1)		(3,662)	(0.6)		(28,709)	784.0
Loss from discontinued operations									
		(59,203)	(7.5)		(9,153)	(1.5)		(50,050)	546.8
Net income	\$	107,711	13.7%	\$	164,600	26.1%	\$	(56,889)	(34.6)%

* Not Meaningful

Net Sales and Orders

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

Net sales of \$787.5 million for the nine months ended September 30, 2011 were up 24.8% compared to the prior year period. The following is an analysis of net sales and orders by segment and by region (*dollars in thousands*):

Segment Analysis	Sales				Orders				Book to Bill Ratio	
	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Dollar and Percentage Change Period to Period	Dollar and Percentage Change Period to Period	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Dollar and Percentage Change Period to Period	Dollar and Percentage Change Period to Period	2011	2010
LED & Solar	\$ 667,697	\$ 537,662	\$ 130,035	24.2%	\$ 583,424	\$ 715,232	\$ (131,808)	(18.4)%	0.87	1.33
Data Storage	119,753	93,468	26,285	28.1	91,350	111,369	(20,019)	(18.0)	0.76	1.19
Total	\$ 787,450	\$ 631,130	\$ 156,320	24.8%	\$ 674,774	\$ 826,601	\$ (151,827)	(18.4)%	0.86	1.31
Regional Analysis										
Americas	\$ 86,164	\$ 61,383	\$ 24,781	40.4%	\$ 62,758	\$ 72,460	\$ (9,702)	(13.4)%	0.73	1.18
EMEA	42,914	65,673	(22,759)	(34.7)	31,966	57,605	(25,639)	(44.5)	0.74	0.88
APAC										
China	514,723	90,844	423,879	466.6	441,486	367,210	74,276	20.2	0.86	4.04
Taiwan	59,886	73,172	(13,286)	(18.2)	57,195	86,668	(29,473)	(34.0)	0.96	1.18
Korea	23,869	287,984	(264,115)	(91.7)	13,668	190,508	(176,840)	(92.8)	0.57	0.66
Other APAC	59,894	52,074	7,820	15.0	67,701	52,150	15,551	29.8	1.13	1.00
APAC	658,372	504,074	154,298	30.6	580,050	696,536	(116,486)	(16.7)	0.88	1.38
Total	\$ 787,450	\$ 631,130	\$ 156,320	24.8%	\$ 674,774	\$ 826,601	\$ (151,827)	(18.4)%	0.86	1.31

Table of Contents

Sales increased in both segments for the nine months ended September 30, 2011 compared to the prior year period. LED & Solar sales were up 24.2% from the prior year period primarily due to increased shipments of MOCVD systems to our LED customers. Data Storage segment sales were up 28.1% from the prior year period due to an increase in capital spending by data storage customers for capacity and technology buys. By region, net sales increased by 30.6% in APAC, primarily due to MOCVD sales to HB LED customers in China partially offset by a reduction in sales to customers in Korea. Net sales in the Americas also increased 40.4%, related to an increase in sales in our Data Storage segment and MBE business. Net sales in EMEA decreased 34.7%, primarily due to reduced volume in our Data Storage segment. We believe that there will continue to be period-to-period variations in the geographic distribution of sales.

Orders for the nine months ended September 30, 2011 decreased by 18.4% from the prior year period. By segment, LED & Solar orders decreased by 18.4%, resulting from lower Korea and Taiwan MOCVD orders. Data Storage orders decreased by 18.0% from a slowdown in capital spending.

Our book-to-bill ratio for the nine months ended September 30, 2011 was 0.86 to 1. Our backlog as of September 30, 2011 was \$389.2 million, compared to \$535.4 million as of December 31, 2010. During the nine months ended September 30, 2011, we experienced a net backlog adjustment of approximately \$34.3 million. The adjustment consisted of \$31.5 million of order cancellations and \$2.8 million related to miscellaneous order adjustments. During the nine months ended September 30, 2011, we had a positive adjustment related to foreign currency translation of \$0.7 million. For certain sales arrangements we require a deposit for a portion of the sales price before shipment. As of September 30, 2011, we had customer deposits and advanced billings of \$78.2 million.

Gross Profit

Gross profit, as a percentage of net sales, for the nine months ended September 30, 2011, was 49.7%, compared to 46.6% in the prior year period. LED & Solar gross margins increased to 49.4% from 46.6% primarily resulting from an increase sales volume. Data Storage gross margins increased to 51.4% from 47.0%, driven primarily by increased sales volume, partially offset by a change in product mix.

Operating Expenses

Selling, general and administrative expenses increased by \$14.6 million, or 24.7%, from the prior year period and remained flat as a percentage of sales. The dollar increase was primarily due to higher salary and related expenses, professional fees, equity-based compensation and travel and entertainment expenses associated primarily with the significant increase in business activity in our LED & Solar segment.

Research and development expenses increased \$30.8 million from the prior year period and increased as a percentage of net sales from 6.2% for the nine months ended September 30, 2010 to 8.9% in the current period. The dollar increase was primarily due to continued product development in areas of high-growth for end market opportunities in our LED & Solar segment, primarily in our MOCVD business.

Income Taxes

Our provision for income taxes consists of U.S. federal, state and local and foreign taxes in amounts necessary to align our year-to-date tax provision with the effective tax rate we expect to achieve for the full year.

For the nine months ended September 30, 2011, the Company had an effective tax rate of 30.3% and recorded a provision for income taxes of \$72.7 million from continuing operations. The effective tax rate was lower than the statutory tax rate primarily due to tax rate differences in the foreign jurisdictions in which the Company operates, the generation of research and development tax credits, and an income tax benefit related to the manufacturer's deduction under IRC Section 199.

For the nine months ended September 30, 2010, the Company had an effective tax rate of 7.5% and recorded a provision for income taxes of \$14.1 million from continuing operations. The effective tax rate was lower than the statutory tax rate as a significant portion of the Company's deferred tax assets became realizable based on operating results for 2010.

Table of Contents**Liquidity and Capital Resources**

Historically, our principal capital requirements have included the funding of acquisitions, capital expenditures and repayment of debt. We traditionally have generated cash from operations and debt and stock issuances. Our ability to generate sufficient cash flows from operations is dependent on the continued demand for our products and services. A summary of the cash flow activity for the nine months ended September 30, 2011 and 2010, respectively, is as follows (*in thousands*):

	Nine months ended September 30,	
	2011	2010
Net income	\$ 107,711	\$ 164,600
Net cash provided by operating activities	\$ 60,095	\$ 187,871
Net cash provided by (used in) investing activities	158,114	(59,769)
Net cash (used in) provided by financing activities	(252,165)	1,403
Effect of exchange rate changes on cash and cash equivalents	2,060	139
Net (decrease) increase in cash and cash equivalents	(31,896)	129,644
Cash and cash equivalents at beginning of period	245,132	148,500
Cash and cash equivalents at end of period	\$ 213,236	\$ 278,144

Cash provided by operations during the nine months ended September 30, 2011 was \$60.1 million compared to \$187.9 million during the nine months ended September 30, 2010. The \$60.1 million cash provided by operations in 2011 included adjustments to the \$107.7 million of net income for non-cash items. The adjustments consisted of \$9.3 million of depreciation and amortization, \$9.5 million of non-cash equity-based compensation expense, \$1.3 million of amortization of debt discount, \$6.8 million of deferred income taxes, \$3.3 million loss on extinguishment of debt and \$44.4 million of discontinued operations, partially offset by \$8.6 million of excess tax benefits from stock option exercises. Net cash provided by operations was negatively impacted by a net \$113.5 million of changes in operating assets and liabilities, which included a \$32.6 million increase in inventories, a \$32.6 million increase in prepaid and other current assets, an \$49.7 million decrease in accrued expenses, principally resulting from a reduction in customer deposits, a \$4.3 million increase in other assets and a \$43.0 million decrease in income taxes payable partially offset by a \$36.2 million decrease in accounts receivable and a \$12.5 million increase in accounts payable. Cash provided by operations during the nine months ended September 30, 2010 was \$187.9 million and included adjustments to the \$164.6 million net income for non-cash items. The adjustments include \$8.3 million of depreciation and amortization, \$6.2 million of non-cash stock-based compensation expense, \$2.3 million of amortization of debt discount and \$9.4 million of discontinued operations, partially offset by \$37.9 million of deferred income taxes. Net cash provided by operations in 2010 was favorably impacted by a net \$35.0 million of changes in operating assets and liabilities.

Cash provided by investing activities of \$158.1 million during the nine months ended September 30, 2011, consisted primarily of \$667.2 million from the sale of short-term investments and \$53.2 million of transfers from restricted cash, partially offset by \$486.6 million of purchases of short-term investments, \$47.5 million of capital expenditures and \$28.3 million of payments for net assets of a business acquired. Cash used in investing activities of \$59.8 million for the nine months ended September 30, 2010, consisted primarily of \$246.5 million of purchases of short-term investments, \$31.6 million of transfers to restricted cash and \$8.0 million of capital expenditures, partially offset by \$213.6 million of proceeds from the maturity of CDARs and \$11.0 million of proceeds from the sale of investments.

Cash used in financing activities of \$252.2 million during the nine months ended September 30, 2011, consisted primarily of \$105.7 million of repayments of long-term debt, \$162.1 million of purchases of Company common stock and \$2.9 million of restricted stock tax withholdings, partially offset by \$10.0 million of cash proceeds from stock option exercises and \$8.6 million excess tax benefits from stock options exercises. Cash provided by financing activities of \$1.4 million during the nine months ended September 30, 2010, consisted of \$36.1 million from stock option exercises partially offset by \$31.6 million of purchases of Company common stock and \$2.9 million of restricted stock tax withholdings.

During the first quarter of 2011, at the option of the holders, \$7.5 million of notes were tendered for conversion at a price of \$45.95 per share, calculated as defined in the indenture relating to the notes, in a net share settlement. As a result, we paid the principal amount of \$7.5 million in cash and issued 111,318 shares of our common stock. We recorded a loss on extinguishment totaling \$0.3 million related to these transactions.

Table of Contents

During the second quarter of 2011, we issued a notice of redemption on the remaining notes outstanding. In lieu of redemption, at the option of the holders, the notes were tendered for conversion at a price of \$50.59 per share, calculated as defined in the indenture relating to the notes, in a net share settlement. Accordingly, we paid the principal amount of \$98.1 million in cash and issued 1,660,095 shares of our common stock. We recorded a loss on extinguishment totaling \$3.0 million related to these transactions.

On April 4, 2011, we purchased a privately-held company which supplies certain components to our business for \$28.3 million in cash.

As of September 30, 2011, we had \$22.9 million of restricted cash relating to the proceeds received from the sale of our Metrology segment. This cash is held in escrow and is restricted from use for one year from the closing date of the transaction to secure potential losses, if any, arising out of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents. The restriction relating to the escrowed proceeds totaling \$22.9 million from the sale of our Metrology segment was released on October 6, 2011.

On July 28, 2011, we announced a plan to discontinue our CIGS solar systems business. The action, which was completed on September 27, 2011 and impacted approximately 80 employees, was in response to the dramatically reduced cost of mainstream solar technologies driven by significant reductions in prices, large industry investment, a lower than expected end market acceptance for CIGS technology and technical barriers in scaling CIGS. This business was previously included as part of our LED & Solar segment.

Accordingly, the results of operations for the CIGS solar systems business have been recorded as discontinued operations in the accompanying Condensed Consolidated Statements of Income for all periods presented. During the nine months ended September 30, 2011, total discontinued operations include charges totaling \$69.8 million. These charges include an asset impairment charge totaling \$6.2 million, a goodwill write-off of \$10.8 million, an inventory write-off totaling \$27.0 million, charges to settle contracts totaling \$22.1 million, lease related charges totaling \$1.4 million and personnel severance charges totaling \$2.3 million. During the three months ended September 30, 2011, total discontinued operations include charges totaling \$19.0 million. These charges include a goodwill write-off totaling \$10.8 million, a charge to settle contracts totaling \$11.0 million, lease related charges totaling \$1.4 million and personnel severance charges totaling \$2.3 million, partially offset by a \$6.5 million recovery of cost relating to inventory written-off during the second quarter.

We believe that existing cash balances together with cash generated from operations will be sufficient to meet our projected working capital and other cash flow requirements for the next twelve months, as well as our contractual obligations.

Common Stock Repurchase Program

During the nine months ended September 30, 2011, we purchased 4,160,228 shares for \$162.1 million (including transaction costs) under the program at an average cost of \$38.96 per share.

Contractual Obligations

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

There have been significant changes to our Contractual Obligations table in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2010 Annual Report on Form 10-K.

The table below shows the current commitments outstanding as of September 30, 2011:

Contractual Cash Obligations and Commitments	Total	Payments due by period				More than 5 years
		Less than 1 year	1-3 years	3-5 years		
Long-term debt	\$ 2,713	\$ 243	\$ 516	\$ 604	\$ 1,350	
Interest on debt	1,060	110	382	298	270	
Operating leases	9,464	3,915	4,083	1,236	230	
Letters of credit and bank guarantees	9,581	9,581				
Purchase commitments	93,305	93,305				
	\$ 116,123	\$ 107,154	\$ 4,981	\$ 2,138	\$ 1,850	

Table of Contents

Application of Critical Accounting Policies

General: Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management continually monitors and evaluates its estimates and judgments, including those related to bad debts, inventories, intangible and other long-lived assets, income taxes, warranty obligations, restructuring costs, and contingent liabilities, including potential litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, 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. Actual results may differ from these estimates under different assumptions or conditions. We consider certain accounting policies related to revenue recognition, short-term investments, the valuation of inventories, the impairment of goodwill and indefinite-lived intangible assets, the impairment of long-lived assets, fair value measurements, warranty costs, income taxes and equity-based compensation to be critical policies due to the estimation processes involved in each.

Revenue Recognition: We recognize revenue based on current accounting guidance provided by the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB). Our revenue transactions include sales of products under multiple-element arrangements. Revenue under these arrangements is allocated to each element based upon its estimated fair market value.

We consider a broad array of facts and circumstances when evaluating each of our sales arrangements in determining when to recognize revenue, including specific terms of the purchase order, contractual obligations to the customer, the complexity of the customer's post-delivery acceptance provisions, customer creditworthiness and the installation process. Management also considers the party responsible for installation, whether there are process specification requirements which need to be demonstrated before final sign off and payment, whether Veeco can replicate the field testing conditions and procedures in our factory and our past experience with demonstrating and installing a particular system. Sales arrangements are reviewed on a case-by-case basis; however, the Company's revenue recognition protocol for established systems is as described below.

System revenue is generally recognized upon shipment or delivery provided title and risk of loss has passed to the customer, evidence of an arrangement exists, prices are contractually fixed or determinable, collectability is reasonably assured and there are no material uncertainties regarding customer acceptance. Revenue from installation services is recognized at the time acceptance is received from the customer. If the arrangement does not meet all the above criteria, the entire amount of the sales arrangement is deferred until the criteria have been met or all elements have been delivered to the customer or been completed.

For those transactions on which we recognize systems revenue, either at the time of shipment or delivery, our sales and contractual arrangements with customers do not contain provisions for right of return or forfeiture, refund or other purchase price concessions. In the rare instances where such provisions are included, the Company defers all revenue until customer acceptance is achieved. In cases where products are sold with a retention of 10% to 20%, which is typically payable by the customer when installation and field acceptance provisions are completed, the customer has the right to withhold this payment until such provisions have been achieved. We defer the greater of the retention amount or the fair value of the installation on systems that we recognize revenue at the time of shipment or delivery.

For new products, new applications of existing products or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting agreed upon specifications at the customer site, revenue is deferred as deferred profit in the accompanying Condensed Consolidated Balance Sheets and fully recognized upon completion of installation and receipt of final customer

acceptance.

Our systems are principally sold to manufacturers in the HB-LED, the data storage and solar industries. Sales arrangements for these systems generally include customer acceptance criteria based upon Veeco and/or customer specifications. Prior to shipment a customer source inspection of the system is performed in our facility or test data is sent to the customer documenting that the system is functioning within agreed upon specifications. Such source inspection or test data replicates the acceptance testing that will be performed at the customer's site prior to final acceptance of the system. Customer acceptance provisions include reassembly and installation of the system at the customer site, which includes performing functional or mechanical test procedures (i.e. hardware checks, leak testing, gas flow monitoring and quality control checks of the basic features of the product.) Additionally, a material demonstration process may be performed to validate the functionality of the product. Upon meeting the agreed upon

Table of Contents

specifications the customer approves final acceptance of the product.

Veeco generally is required to install these products and demonstrate compliance with acceptance tests at the customer's facility. Such installations typically are not considered complex and the installation process is not deemed essential to the functionality of the equipment because it does not involve significant changes to the features or capabilities of the equipment or involve building complex interfaces or connections. We have a demonstrated history of completing such installations in a timely, consistent manner and can reliably estimate the costs of such. In such cases, the test environment at our facilities prior to shipment replicates the customer's environment. While there are others in the industry with sufficient knowledge about the installation process for our systems as a practical matter, most customers engage the Company to perform the installation services.

In Japan, where our contractual terms with customers generally specify risk of loss and title transfers upon customer acceptance, revenue is recognized and the customer is billed upon receipt of written customer acceptance.

Revenue related to maintenance and service contracts is recognized ratably over the applicable contract term. Component and spare part revenue is recognized at the time of shipment or delivery in accordance with the terms of the applicable sales arrangement.

Short-Term Investments: We determine the appropriate balance sheet classification of our investments at the time of purchase and evaluate the classification at each balance sheet date. As part of our cash management program, we maintain a portfolio of marketable securities which are classified as available-for-sale. These securities include FDIC insured corporate bonds, treasury bills, commercial paper and CDARS with maturities of greater than three months when purchased in principal amounts that, when aggregated with interest to accrue over the term, will not exceed FDIC limits. Securities classified as available-for-sale are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income (loss) and reported in equity. Net realized gains and losses are included in net income.

Inventory Valuation: Inventories are stated at the lower of cost (principally first-in, first-out method) or market. Management evaluates the need to record adjustments for impairment of inventory on a quarterly basis. Our policy is to assess the valuation of all inventories, including raw materials, work-in-process, finished goods, and spare parts and other service inventory. Obsolete or slow-moving inventory, based upon historical usage, or inventory in excess of management's estimated usage for the next 12 months' requirements is written-down to its estimated market value, if less than its cost. Inherent in the estimates of market value are management's estimates related to our future manufacturing schedules, customer demand, technological and/or market obsolescence, possible alternative uses, and ultimate realization of excess inventory.

Goodwill and Indefinite-Lived Intangible Asset Impairment: The Company does not amortize goodwill or intangible assets with indefinite useful lives, but instead tests the balances in these asset accounts for impairment at least annually at the reporting unit level. Our policy is to perform this annual impairment test in the fourth quarter of each fiscal year or more frequently if impairment indicators arise. Impairment indicators include, among other conditions, cash flow deficits, a historical or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, and a material decrease in the fair value of some or all of the assets.

Pursuant to relevant accounting pronouncements we are required to determine if it is appropriate to use the operating segment as defined under accounting guidance as the reporting unit or one level below the operating segment, depending on whether certain criteria are met. We have identified two reporting units that are required to be reviewed for impairment. The reporting units are LED & Solar and Data Storage. In

identifying the reporting units management considered the economic characteristics of operating segments including the products and services provided, production processes, types or classes of customer and product distribution.

We perform this impairment test by first comparing the fair value of our reporting units to their respective carrying amount. When determining the estimated fair value of a reporting unit, we utilize a discounted future cash flow approach since reported quoted market prices are not available for our reporting units. Developing the estimate of the discounted future cash flow requires significant judgment and projections of future financial performance. The key assumptions used in developing the discounted future cash flows are the projection of future revenues and expenses, working capital requirements, residual growth rates and the weighted average cost of capital. In developing our financial projections, we consider historical data, current internal estimates and market growth trends. Changes to any of these assumptions could materially change the fair value of the reporting unit. We reconcile the aggregate fair value of our reporting units to the Company's adjusted market capitalization as a supporting calculation. The adjusted market capitalization is calculated by multiplying the average share price of our common stock for the last ten trading

Table of Contents

days prior to the measurement date by the number of outstanding common shares and adding a control premium.

If the carrying value of the reporting units exceed the fair value we would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any.

Definite-Lived Intangible and Long-Lived Assets: Intangible assets consist of purchased technology, customer-related intangible assets, patents, trademarks, covenants not-to-compete, software licenses and deferred financing costs. Purchased technology consists of the core proprietary manufacturing technologies associated with the products and offerings obtained through acquisition and are initially recorded at fair value. Customer-related intangible assets, patents, trademarks and covenants not-to-compete are initially recorded at fair value and software licenses and deferred financing costs are initially recorded at cost. Intangible assets with definitive useful lives are amortized using the straight-line method over their estimated useful lives for periods ranging from 2 years to 17 years.

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Long-lived assets, such as property, plant, and equipment and intangible assets with definite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment indicators include, among other conditions, cash flow deficits, a historical or anticipated decline in revenue or operating profit, adverse legal or regulatory developments and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flow expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Fair Value Measurements: Accounting guidance for our non-financial assets and non-financial liabilities requires that we disclose the type of inputs we use to value our assets and liabilities, based on three categories of inputs as defined in such. Level 1 inputs are quoted, unadjusted prices in active markets for identical assets or liabilities that the company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. These requirements apply to our long-lived assets, goodwill and intangible assets. We use Level 3 inputs to value all of such assets and the methodology we use to value such assets has not changed since December 31, 2010. The Company primarily applies the market approach for recurring fair value measurements.

Warranty Costs: We estimate the costs that may be incurred under the warranty we provide and record a liability in the amount of such costs at the time the related revenue is recognized. Estimated warranty costs are determined by analyzing specific product and historical configuration statistics and regional warranty support costs. Our warranty obligation is affected by product failure rates, material usage, and labor costs incurred in correcting product failures during the warranty period. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required.

Income Taxes: As part of the process of preparing our Condensed Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Condensed Consolidated Balance Sheets. The carrying value of our deferred tax assets is adjusted by a partial valuation allowance to recognize the extent to which the future tax benefits will be recognized on a more likely than not basis. Our net deferred tax assets consist primarily of net operating loss and tax credit carry forwards, and timing differences between the book and tax treatment of inventory, acquired intangible assets and other asset valuations. Realization of these net deferred tax assets is dependent upon our ability to generate future taxable income.

Table of Contents

We record valuation allowances in order to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, we consider a variety of factors, including the scheduled reversal of deferred tax liabilities, future taxable income, and prudent and feasible tax planning strategies. Under the relevant accounting guidance, factors such as current and previous operating losses are given significantly greater weight than the outlook for future profitability in determining the deferred tax asset carrying value.

Relevant accounting guidance addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under such guidance, we must recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such uncertain tax positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

Equity-based Compensation: Equity-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as expense over the employee requisite service period. In order to determine the fair value of stock options on the date of grant, we apply the Black-Scholes option-pricing model. Inherent in the model are assumptions related to risk-free interest rate, dividend yield, expected stock-price volatility and option life.

The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The dividend yield assumption is based on the Company's historical and future expectation of dividend payouts. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility and option life assumptions require a level of judgment which make them critical accounting estimates.

We use an expected stock-price volatility assumption that is a combination of both historical volatility, calculated based on the daily closing prices of our common stock over a period equal to the expected term of the option and implied volatility, utilizing market data of actively traded options on our common stock, which are obtained from public data sources. We believe that the historical volatility of the price of our common stock over the expected term of the option is a strong indicator of the expected future volatility and that implied volatility takes into consideration market expectations of how future volatility will differ from historical volatility. Accordingly, we believe a combination of both historical and implied volatility provides the best estimate of the future volatility of the market price of our common stock.

The expected term, representing the period of time that options granted are expected to be outstanding, is estimated using a lattice-based model incorporating historical post vest exercise and employee termination behavior.

We estimate forfeitures using our historical experience, which is adjusted over the requisite service period based on the extent to which actual forfeitures differ or are expected to differ, from such estimates. Because of the significant amount of judgment used in these calculations, it is reasonably likely that circumstances may cause the estimate to change.

With regard to the weighted-average option life assumption, we consider the exercise behavior of past grants and model the pattern of aggregate exercises.

Recent Accounting Pronouncements

Comprehensive Income: In June 2011, the FASB issued amended guidance related to Comprehensive Income. This amendment allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendment should be applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its condensed consolidated financial statements.

Business Combinations: In December 2010, the FASB issued amended guidance related to Business

Table of Contents

Combinations. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will assess the impact of these amendments on its condensed consolidated financial statements if and when an acquisition occurs.

Intangibles Goodwill and Other: In September 2011, the FASB issued amended guidance related to Intangibles Goodwill and Other: Testing Goodwill for Impairment. The amendment is intended to simplify how entities test goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company does not believe that this guidance will have a material impact on its condensed consolidated financial statements.

In December 2010, the FASB issued amended guidance related to Intangibles Goodwill and Other. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

Fair Value Measurements: In January 2010, the FASB issued amended guidance for Fair Value Measurements and Disclosures. This update requires some new disclosures and clarifies existing disclosure requirements about fair value measurement. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, this update requires that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, this update clarifies the requirements of existing disclosures. For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This update was adopted on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated financial statements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued amended guidance related to Fair Value Measurements. This amendment represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in this amendment, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

IFRSs. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is

Table of Contents

not permitted. The Company does not believe that this guidance will have a material impact on its condensed consolidated financial statements.

Revenue Recognition: In October 2009, the FASB issued amended guidance related to multiple-element arrangements which requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. This update eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances. All entities must adopt the guidance no later than the beginning of their first fiscal year beginning on or after June 15, 2010. Entities may elect to adopt the guidance through either prospective application for revenue arrangements entered into or materially modified, after the effective date or through retrospective application to all revenue arrangements for all periods presented. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In October 2009, the FASB issued amended guidance that is expected to significantly affect how entities account for revenue arrangements that contain both hardware and software elements. As a result, many tangible products that rely on software will be accounted for under the revised multiple-element arrangements revenue recognition guidance, rather than the software revenue recognition guidance. The revised guidance must be adopted by all entities no later than fiscal years beginning on or after June 15, 2010. An entity must select the same transition method and same period for the adoption of both this guidance and the revisions to the multiple-element arrangements guidance noted above. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our net sales to foreign customers represented approximately 90.9% and 89.1% of our total net sales for the three and nine months ended September 30, 2011, respectively, and 92.5% and 90.3% for the comparable 2010 periods. We expect that net sales to foreign customers will continue to represent a large percentage of our total net sales. Our net sales denominated in foreign currencies represented approximately 1.0% and 1.3% of our total net sales for the three and nine months ended September 30, 2011 respectively, and 2.4% and 1.6% for the comparable 2010 periods.

We are exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have the largest impact on translating our international operating profit (loss) are the Japanese Yen and the Euro. We use derivative financial instruments to mitigate these risks. We do not use derivative financial instruments for speculative or trading purposes. We generally enter into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known currency exposures.

The aggregate foreign currency exchange (loss) gain included in determining the condensed consolidated results of operations was approximately \$(0.2) million and \$(0.7) million during the three and nine months ended September 30, 2011, respectively and approximately \$0.1 million and \$(0.3) million during the three and nine months ended September 30, 2010, respectively. Included in the aggregate foreign currency exchange (loss) gain were (losses) gains related to forward contracts of \$(0.3) million and \$0.5 million during the three and nine months ended September 30, 2011, respectively and \$(0.1) million and less than \$(0.1) million during the three and nine months ended September 30, 2010, respectively. These amounts were recognized and are included in Other, net in the accompanying Condensed Consolidated Statements of Income.

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

As of September 30, 2011, \$0.1 million of losses related to forward contracts were included in accrued expenses and other current liabilities and were subsequently paid in October 2011. As of December 31, 2010, approximately \$0.3 million of gains related to forward contracts were included in prepaid expenses and other current assets and were subsequently received in January 2011. Monthly forward contracts with a notional amount of \$1.4 million, entered into in September 2011 for October 2011, will be settled in October 2011.

The weighted average notional amount of derivative contracts outstanding during the three and nine months ended September 30, 2011 were approximately \$4.6 million and \$13.2 million, respectively.

We believe that based upon our hedging program, a 10% change in foreign exchange rates would have an immaterial impact on the condensed consolidated results of operations. We believe that this quantitative measure has inherent limitations because, as discussed above, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

Table of Contents

Assuming third quarter 2011 variable debt and investment levels, the effect of a one-point change in interest rates would not have a material effect on net interest expense.

Item 4. Controls and Procedures.

Our senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act)) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of management, including the chief executive officer and chief financial officer, as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no significant changes in our internal controls or other factors during the fiscal quarter ended September 30, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved in various legal proceedings arising in the normal course of our business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors.

Information regarding risk factors appears in the Safe Harbor Statement at the beginning of this Quarterly Report on Form 10-Q, in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and in Part II Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011. There have been no material changes from the risk factors previously disclosed in our 2010 Annual Report and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, except as follows:

- Regarding risks associated with our entrance into the emerging solar industry, we discontinued our CIGS solar systems business, completed as of September 27, 2011.
- As of October 6, 2011, the restrictions on the escrowed proceeds from the sale of our Metrology business to Bruker Corporation were released.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains the Company's stock repurchases of equity securities in the third quarter of 2011:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
Fiscal month of July 2011 (July 4, 2011 - July 31, 2011) (2)	2,119,796	41.77	3,403,684	65,604,207
Fiscal month of August 2011 (August 1, 2011 - September 4, 2011) (2)	1,875,144	35.08	5,278,828	

Edgar Filing: VEECO INSTRUMENTS INC - Form 10-Q

(1) On August 24, 2010, our Board of Directors authorized the repurchase of up to \$200 million of our common stock. All funds authorized for this repurchase program had been utilized as of August 19, 2011. Repurchases were made from time to time on the open market in accordance with applicable federal securities laws.

(2) There were no repurchases during the fiscal month of September.

Table of Contents**Item 6. Exhibits.**

Unless otherwise indicated, each of the following exhibits has been previously filed with the SEC by the Company under File No. 0-16244.

Number	Description	Incorporated by Reference to the Following Document:
3.1	Amendment No. 2 to the Fourth Amended and Restated Bylaws of Veeco effective October 20, 2011	Current Report on Form 8-K filed on October 24, 2011
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101.INS	XBRL Instance	**
101.XSD	XBRL Schema	**
101.PRE	XBRL Presentation	**
101.CAL	XBRL Calculation	**
101.DEF	XBRL Definition	**
101.LAB	XBRL Label	**

* Filed herewith

** Filed herewith electronically

Table of Contents

SIGNATURES

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

Date: October 31, 2011

Veeco Instruments Inc.

By: /s/ JOHN R. PEELER
John R. Peeler
Chief Executive Officer

By: /s/ DAVID D. GLASS
David D. Glass
Executive Vice President and Chief Financial Officer

Table of Contents**INDEX TO EXHIBITS**

Unless otherwise indicated, each of the following exhibits has been previously filed with the Securities and Exchange Commission by the Company under File No. 0-16244.

Number	Description	Incorporated by Reference to the Following Document:
3.1	Amendment No. 2 to the Fourth Amended and Restated Bylaws of Veeco effective October 20, 2011	Current Report on Form 8-K filed on October 24, 2011
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101.INS	XBRL Instance	**
101.XSD	XBRL Schema	**
101.PRE	XBRL Presentation	**
101.CAL	XBRL Calculation	**
101.DEF	XBRL Definition	**
101.LAB	XBRL Label	**

* Filed herewith

** Filed herewith electronically
