

VEECO INSTRUMENTS INC  
Form 10-Q  
November 04, 2013  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2013**

**OR**

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

**For the transition period from                      to                      .**

**Commission file number 0-16244**

## VEECO INSTRUMENTS INC.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of

**11-2989601**  
(I.R.S. Employer

Incorporation or Organization)

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**

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

Indicate by check mark 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 ☒

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39,246,279 shares of common stock were outstanding as of the close of business on October 24, 2013.

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**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. 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:

- Our operating results have been, and may continue to be, adversely affected by unfavorable market conditions;
- Timing of market adoption of light emitting diode ("LED") technology for general lighting is uncertain;
- 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 and our ability to adapt to fluctuating order volumes;
- The further reduction or elimination of foreign government subsidies and economic incentives may adversely affect the future order rate for our metal organic chemical vapor deposition ("MOCVD") equipment;
- Our operating results have been, and may continue to be, adversely affected by tightening credit markets;
- 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 failure to estimate customer demand accurately could result in excess or obsolete inventory and/or liabilities to our suppliers for products no longer needed, while manufacturing interruptions or delays could affect our ability to meet customer demand;
- The cyclical nature of the industries we serve directly affects our business;
- We rely on a limited number of suppliers, some of whom are our sole source for particular components;
- Our sales to 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, which could materially adversely impact our future results of operations;
- 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 may be exposed to liabilities under the Foreign Corrupt Practices Act and any determination that we violated these or similar laws could have a material adverse effect on our business;
- 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;

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- We face significant competition;
- We depend on a limited number of customers, located primarily in a limited number of regions, that operate in highly concentrated industries;
- Our sales cycle is long and unpredictable;
- Our material weaknesses in our internal control which have impeded, and may continue to impede, our ability to file timely and accurate periodic reports may cause us to incur significant additional costs and may continue to affect our stock price;
- The price of our common shares may be volatile and could decline significantly;
- Our inability to attract, retain, and motivate key employees could have a material adverse effect on our business;
- 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;
- If we are subject to cyber-attacks we could incur substantial costs and, if such attacks are successful, could result in significant liabilities, reputational harm and disruption of our operations;
- 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;

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- Changes in accounting pronouncements or taxation rules or practices may adversely affect our financial results;
- We are subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act and any delays or difficulty in satisfying these requirements or negative reports concerning our internal controls could adversely affect our future results of operations and our stock price;
- 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;
- New regulations related to conflict minerals will force us to incur additional expenses, may make our supply chain more complex, and may result in damage to our relationships with customers; and
- The matters set forth in this Report generally, including the risk factors set forth in Part II. Item 1A. Risk Factors.

Consequently, such forward looking statements should be regarded solely as the current plans, estimates and beliefs of Veeco Instruments Inc. (together with its consolidated subsidiaries, Veeco, the Company, we, us, and our, unless the context indicates otherwise). 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.

**Explanatory Note**

Although this Report relates to the three and six months ended June 30, 2013, certain information is presented as of the time this Report is being filed, rather than as of June 30, 2013. Our business and financial condition as of the date this Report is filed is different from what our business and financial condition was as of June 30, 2013.

During 2012, the Company commenced an internal investigation in response to information it received concerning certain issues, including contract documentation issues, related to a limited number of customer transactions in South Korea. During the review of information in connection with the internal investigation, questions were raised that prompted the Company to conduct a comprehensive and extensive review of its revenue recognition accounting for certain multiple element arrangements. The Company retained experienced counsel, assisted by an experienced outside accounting consulting firm, to oversee the accounting review undertaken by the Company. The Company completed that review in October 2013.

The delay in filing our periodic reports began with an announcement, on November 15, 2012, regarding our accounting review of our application of accounting principles related to the Company's sales of multiple element arrangements of MOCVD systems in certain transactions originating in 2009 and 2010. We conducted examinations of our MOCVD transactions to determine whether the revenue and related expenses

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were recognized in the appropriate accounting period. Subsequently, we expanded our accounting review to other relevant transactions of similar multiple element arrangements arising since 2009. In the course of our accounting review, we have examined more than 100 multiple element arrangements.

The primary focus of the Company's accounting review concerned whether the Company correctly interpreted and applied generally accepted accounting principles in the United States ( U.S. GAAP ) relating to revenue recognition for multiple element arrangements as set forth in Securities and Exchange Commission Staff Accounting Bulletin No. 104: Revenue Recognition, and ASC 605-25 - Revenue Recognition: Multiple Element Arrangements (formerly known as EITF 00-21 and EITF 08-01), to certain sales of Veeco products.

We often enter into large orders with our customers consisting of several elements. For accounting purposes, these are called multiple element arrangements, and can include systems, upgrades, spare parts, service, as well as certain other items. Our accounting review examined the selected sales transactions to determine whether the Company appropriately: (1) identified all of the elements in its arrangements with customers; (2) determined the proper units of accounting as part of the arrangements; and (3) allocated the arrangements' consideration to each of the units of accounting under the applicable accounting standards. As a result of our accounting review we identified errors in the consolidated financial statements related to prior periods. The errors were primarily attributable to the misapplication of U.S. GAAP for recognizing revenue and related costs under multiple element arrangements and accounting for warranties. We assessed the materiality of these errors, both quantitatively and qualitatively, and concluded that these errors were not material, individually or in the aggregate, to our consolidated financial statements in 2012 or any other prior periods.

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While performing the foregoing accounting review, our Chief Executive Officer and the Chief Financial Officer supervised and participated in conducting an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based upon that evaluation, management identified material weaknesses in the Company s internal control over financial reporting and therefore management concluded that we did not maintain effective internal control over financial reporting through the date of this Report based on the criteria established by COSO.

Notwithstanding the material weaknesses discussed in *Part I, Item 4, Controls and Procedures* in this report and based upon our accounting review performed during the delayed filing periods, our management has concluded that our condensed consolidated financial statements included in this report on Form10-Q have been prepared in accordance with U.S. GAAP for interim financial information.

**Available Information**

We file annual, quarterly and current reports, information statements and other information with the SEC. The public may obtain information by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website 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](http://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](http://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 website as soon as reasonably practicable after we electronically file such material with the SEC.



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**Veeco Instruments Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(In thousands, except per share data)  
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 97,435	\$ 136,547	\$ 159,216	\$ 276,456
Cost of sales	62,795	75,293	102,024	149,934
Gross profit	34,640	61,254	57,192	126,522
Operating expenses (income):				
Selling, general and administrative	19,779	20,893	39,427	40,666
Research and development	20,870	23,910	41,607	47,216
Amortization	855	1,185	1,711	2,400
Restructuring			531	63
Other, net	(52)	146	352	111
Total operating expenses	41,452	46,134	83,628	90,456
Operating (loss) income	(6,812)	15,120	(26,436)	36,066
Interest income, net	236	329	428	532
(Loss) income from continuing operations before income taxes	(6,576)	15,449	(26,008)	36,598
Income tax (benefit) provision	(2,495)	4,438	(11,856)	9,125
(Loss) income from continuing operations	(4,081)	11,011	(14,152)	27,473
Discontinued operations:				
Income from discontinued operations before income taxes		1,219		1,138
Income tax provision		412		381
Income from discontinued operations		807		757
Net (loss) income	\$ (4,081)	\$ 11,818	\$ (14,152)	\$ 28,230
(Loss) income per common share:				
Basic:				
Continuing operations	\$ (0.11)	\$ 0.29	\$ (0.37)	\$ 0.72
Discontinued operations		0.02		0.02
(Loss) income	\$ (0.11)	\$ 0.31	\$ (0.37)	\$ 0.74
Diluted :				
Continuing operations	\$ (0.11)	\$ 0.28	\$ (0.37)	\$ 0.71
Discontinued operations		0.02		0.02
(Loss) income	\$ (0.11)	\$ 0.30	\$ (0.37)	\$ 0.73
Weighted average shares outstanding:				
Basic	38,764	38,370	38,740	38,315
Diluted	38,764	38,988	38,740	38,925

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 Comprehensive (Loss) Income****(In thousands)****(Unaudited)**

	<b>For the three months ended June 30,</b>			<b>For the six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>		<b>2013</b>	<b>2012</b>
Net (loss) income	\$ (4,081)	\$ 11,818	\$	(14,152)	\$ 28,230
Other comprehensive (loss) income, net of tax					
Available-for-sale securities					
Unrealized loss on available-for-sale securities (net of taxes of \$63, \$(24), \$79 and \$(67))	(183)	(66)		(162)	(184)
Less: Reclassification adjustments for (gains) losses included in net (loss) income	(13)	1		(50)	(9)
Net unrealized loss on available-for-sale securities	(196)	(65)		(212)	(193)
Foreign currency translation (net of taxes of \$(176), \$(37), \$(189) and \$(30))	(499)	244		(1,262)	(245)
Comprehensive (loss) income	\$ (4,776)	\$ 11,997	\$	(15,626)	\$ 27,792

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

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**Veeco Instruments Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except per share data)

<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$	241,548	\$ 384,557
Short-term investments		340,332	192,234
Restricted cash		3,448	2,017
Accounts receivable, net		44,736	63,169
Inventories		64,107	59,807
Prepaid expenses and other current assets		32,895	32,155
Deferred income taxes		16,918	10,545
Total current assets		743,984	744,484
Property, plant and equipment at cost, net		96,949	98,302
Goodwill		55,828	55,828
Deferred income taxes		5,136	935
Intangible assets, net		19,263	20,974
Other assets		16,908	16,781
<b>Total assets</b>	\$	938,068	\$ 937,304
<b>Liabilities and equity</b>			
Current liabilities:			
Accounts payable	\$	46,948	\$ 26,087
Accrued expenses and other current liabilities		59,176	74,260
Deferred revenue		17,294	9,380
Income taxes payable		112	2,292
Current portion of long-term debt		279	268
Total current liabilities		123,809	112,287
Deferred income taxes		7,168	7,137
Long-term debt		1,995	2,138
Other liabilities		4,779	4,530
<b>Total liabilities</b>		137,751	126,092
Equity:			
Preferred stock, 500,000 shares authorized; no shares issued and outstanding			
Common stock; \$.01 par value; authorized 120,000,000 shares; 39,254,671 and 39,328,503 shares issued and outstanding in 2013 and 2012, respectively			
		393	393
Additional paid-in-capital		713,454	708,723
Retained earnings		81,971	96,123
Accumulated other comprehensive income		4,499	5,973
<b>Total equity</b>		800,317	811,212
<b>Total liabilities and equity</b>	\$	938,068	\$ 937,304

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

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**Veeco Instruments Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	2013	Six months ended June 30,	2012
<b>Cash Flows from Operating Activities</b>			
Net (loss) income	\$ (14,152)	\$	28,230
Adjustments to reconcile net (loss) income to net cash provided by operating			
Depreciation and amortization	7,985		7,834
Deferred income taxes	(10,571)		587
Non-cash equity-based compensation	6,292		7,144
Excess tax benefits from stock option exercises	(461)		(978)
Non-cash items from discontinued operations			(1,285)
Other, net	26		
Changes in operating assets and liabilities:			
Accounts receivable	18,099		7
Inventories	(4,211)		22,888
Accounts payable	20,912		(7,756)
Accrued expenses, deferred revenue and other current liabilities	(7,095)		(12,476)
Income taxes payable	(1,708)		(1,205)
Other, net	(1,365)		17,286
Net cash provided by operating activities	13,751		60,276
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(5,999)		(16,601)
Proceeds from sales of short-term investments	272,449		99,533
Payments for purchases of short-term investments	(420,767)		(49,014)
Proceeds from sale of assets from discontinued segment			3,758
Other	(718)		
Net cash (used in) provided by investing activities	(155,035)		37,676
<b>Cash Flows from Financing Activities</b>			
Proceeds from stock option exercises	313		2,161
Restricted stock tax withholdings	(2,335)		(1,330)
Excess tax benefits from stock option exercises	461		978
Repayments of long-term debt	(132)		(121)
Net cash (used in) provided by financing activities	(1,693)		1,688
Effect of exchange rate changes on cash and cash equivalents	(32)		(515)
Net (decrease) increase in cash and cash equivalents	(143,009)		99,125
Cash and cash equivalents at beginning of period	384,557		217,922
Cash and cash equivalents at end of period	\$ 241,548	\$	317,047
<b>Non-cash investing and financing activities</b>			
Transfers from property, plant and equipment to inventory	\$ 2,224	\$	
Transfers from inventory to property, plant and equipment	\$ 1,144		

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



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**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, we, us, and our, unless the context indicates otherwise) 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 ( U.S. GAAP ) 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 six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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 of each period. The interim quarter ends are determined at the beginning of each year based on the 13-week quarters. The 2013 interim quarter ends are March 31, June 30 and September 29. The 2012 interim quarter ends were April 1, July 1 and September 30. 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. We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to discontinued operations.

*Accounting Review*

During 2012, the Company commenced an internal investigation in response to information it received concerning certain issues, including contract documentation issues, related to a limited number of customer transactions in South Korea. During the review of information in connection with the internal investigation, questions were raised that prompted the Company to conduct a comprehensive and extensive review of its revenue recognition accounting for certain multiple element arrangements. The Company retained experienced counsel, assisted by an experienced outside accounting consulting firm, to oversee the accounting review undertaken by the Company. The Company completed that review in October 2013.

The delay in filing our periodic reports began with an announcement, on November 15, 2012, regarding our accounting review of our application of accounting principles related to the Company's sales of multiple element arrangements of Metal Organic Chemical Vapor Deposition ( MOCVD ) systems in certain transactions originating in 2009 and 2010. We conducted examinations of our MOCVD transactions to determine whether the revenue and related expenses were recognized in the appropriate accounting period. Subsequently, we expanded our accounting review to other relevant transactions of similar multiple element arrangements arising since 2009. In the course of our accounting review, we have examined more than 100 multiple element arrangements.

The primary focus of the Company's accounting review concerned whether the Company correctly interpreted and applied generally accepted accounting principles relating to revenue recognition for multiple element arrangements as set forth in Securities and Exchange Commission



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Staff Accounting Bulletin No. 104: Revenue Recognition, and ASC 605-25 - Revenue Recognition: Multiple Element Arrangements (formerly known as EITF 00-21 and EITF 08-01), to certain sales of Veeco products.

We often enter into large orders with our customers consisting of several elements. For accounting purposes, these are called multiple element arrangements, and can include systems, upgrades, spare parts, services, as well as certain other items. Our accounting review examined the selected sales transactions to determine whether the Company appropriately: (1) identified all of the elements in its arrangements with customers; (2) determined the proper units of accounting as part of the arrangements; and (3) allocated the arrangements' consideration to each of the units of accounting under the applicable accounting standards. As a result of our accounting review we identified errors in the consolidated financial statements related to prior periods. The errors were primarily attributable to the misapplication of U.S. GAAP for recognizing revenue and related costs under multiple element arrangements and accounting for warranties. We assessed the materiality of these errors, both quantitatively and qualitatively, and concluded that these errors were not material, individually or in the aggregate, to our consolidated financial statements in 2012 or any other prior periods.

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Notwithstanding the material weaknesses discussed in *Part I, Item 4. Controls and Procedures* and based upon the accounting review discussed above, our management has concluded that our consolidated financial statements are fairly stated in all material respects in accordance with U.S. GAAP for interim financial statements.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include: the best estimate of selling price for our products and services; allowance for doubtful accounts; inventory valuation; recoverability and useful lives of property, plant and equipment and identifiable intangible assets; investment valuations; fair value of derivatives; recoverability of goodwill and long-lived assets; recoverability of deferred tax assets; liabilities for product warranty; accruals for contingencies; equity-based payments, including forfeitures and performance based vesting; and liabilities for tax uncertainties. Actual results could differ from those estimates.

*(Loss) 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Basic weighted average shares outstanding	38,764	38,370	38,740	38,315
Dilutive effect of stock options and restricted stock		618		610
Diluted weighted average shares outstanding	38,764	38,988	38,740	38,925

Basic (loss) income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted (loss) income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding during the period.

Potentially dilutive securities attributable to outstanding stock options and restricted stock were approximately 0.9 million and 1.2 million common equivalent shares during the three and six months ended June 30, 2013, respectively. Potentially dilutive securities attributable to outstanding stock options and restricted stock were approximately 1.5 million and 1.3 million common equivalent shares during the three and six months ended June 30, 2012, respectively.

Approximately 0.7 million and 0.6 million common equivalent shares were excluded from the calculation of diluted net loss per share during the three and six months ended June 30, 2013, respectively, because their effect on loss per share was anti-dilutive due to the net loss sustained during the respective periods.

*Revenue Recognition*

We recognize revenue when all of the following criteria have been met: persuasive evidence of an arrangement exists with a customer; delivery of the specified products has occurred or services have been rendered; prices are contractually fixed or determinable; and collectability is reasonably assured. Revenue is recorded including shipping and handling costs and excluding applicable taxes related to sales. A significant portion of our revenue is derived from contractual arrangements with customers that have multiple elements, such as systems, upgrades, components, spare parts, maintenance and service plans. For sales arrangements that contain multiple elements, we split the arrangement into separate units of accounting if the individually delivered elements have value to the customer on a standalone basis. We also evaluate whether multiple transactions with the same customer or related party should be considered part of a multiple element arrangement, whereby we assess, among other factors, whether the contracts or agreements are negotiated or executed within a short time frame of each other or if there are indicators that the contracts are negotiated in contemplation of each other. When we have separate units of accounting, we allocate revenue to each element based on the following selling price hierarchy: vendor-specific objective evidence ( VSOE ) if available; third party evidence ( TPE ) if VSOE is not available; or our best estimate of selling price ( BESP ) if neither VSOE nor TPE is available. For the majority of the elements in our arrangements we utilize BESP. The accounting guidance for selling price hierarchy did not include BESP for arrangements entered into prior to January 1, 2011, and as such we recognized revenue for those arrangements as described below.

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We consider many facts when evaluating each of our sales arrangements to determine the timing of revenue recognition, including the contractual obligations, the customer's creditworthiness and the nature of the customer's post-delivery acceptance provisions. Our system sales arrangements, including certain upgrades, generally include field acceptance provisions that may include functional or mechanical test procedures. For the majority of our arrangements, 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 to the agreed upon specifications prior to delivery. Historically, such source inspection or test data replicates the field acceptance provisions that will be performed at the customer's site prior to final acceptance of the system. As such, we objectively demonstrate that the criteria specified in the contractual acceptance provisions are achieved prior to delivery and, therefore, we recognize revenue upon delivery since there is no substantive contingency remaining related to the acceptance provisions as of that date, subject to the retention amount constraint described below. For new products, new applications of existing products or for products with substantive customer acceptance provisions where we cannot objectively demonstrate that the criteria specified in the contractual acceptance provisions have been achieved prior to delivery, revenue and the associated costs are deferred and fully recognized upon the receipt of final customer acceptance, assuming all other revenue recognition criteria have been met.

Our system sales arrangements, including certain upgrades, generally 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, we defer all revenue until such rights expire. In many cases our products are sold with a billing retention, typically 10% of the sales price (the retention amount), which is typically payable by the customer when field acceptance provisions are completed. The amount of revenue recognized upon delivery of a system or upgrade is limited to the lower of i) the amount that is not contingent upon acceptance provisions or ii) the value allocated to the delivered elements, if such sale is part of a multiple-element arrangement.

For transactions entered into prior to January 1, 2011, under the accounting rules for multiple-element arrangements in place at that time, we deferred the greater of the retention amount or the relative fair value of the undelivered elements based on VSOE. When we could not establish VSOE or TPE for all undelivered elements of an arrangement, revenue on the entire arrangement was deferred until the earlier of the point when we did have VSOE for all undelivered elements or the delivery of all elements of the arrangement.

Our sales arrangements, including certain upgrades, generally include installation. The installation process is not deemed essential to the functionality of the equipment since it is not complex; that is, it does not require significant changes to the features or capabilities of the equipment or involve building elaborate interfaces or connections subsequent to factory acceptance. We have a demonstrated history of consistently completing installations in a timely manner and can reliably estimate the costs of such activities. Most customers engage us to perform the installation services, although there are other third-party providers with sufficient knowledge who could complete these services. Based on these factors, we deem the installation of our systems to be inconsequential and perfunctory relative to the system as a whole, and as a result, do not consider such services to be a separate element of the arrangement. As such, we accrue the cost of the installation at the time of revenue recognition for the system.

In Japan, where our contractual terms with customers generally specify title and risk and rewards of ownership transfer upon customer acceptance, revenue is recognized and the customer is billed upon the 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 are recognized at the time of delivery in accordance with the terms of the applicable sales arrangement.

**Note 2 Discontinued Operations**

There was \$0.8 million in income from discontinued operations with no sales recorded for the three and six months ended June 30, 2012.

Table of Contents**Note 3 Balance Sheet Information***Cash and Cash Equivalents*

Cash and cash equivalents include cash and certain highly liquid investments. Highly liquid investments with maturities of three months or less when purchased may be classified as cash equivalents. Such items may include liquid money market accounts, treasury bills, government agency securities and corporate debt. The investments that are classified as cash equivalents are carried at cost, which approximates fair value.

*Short-Term Investments*

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

		June 30, 2013		
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
United States treasuries	\$ 196,063	\$ 27	\$ (28)	\$ 196,062
Corporate bonds	75,837	4	(213)	75,628
Government agency securities	64,647	8	(13)	64,642
Commercial paper	4,000			4,000
Total available-for-sale securities	\$ 340,547	\$ 39	\$ (254)	\$ 340,332

During the three and six months ended June 30, 2013, available-for-sale securities were liquidated for total proceeds of \$171.2 million and \$272.4 million, respectively. There were minimal gross realized gains on these sales for the three and six months ended June 30, 2013.

		December 31, 2012		
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
United States treasuries	\$ 184,102	\$ 76	\$	\$ 184,178
Government agency securities	8,056			8,056
Total available-for-sale securities	\$ 192,158	\$ 76	\$	\$ 192,234

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During the three and six months ended June 30, 2012, available-for-sale securities were liquidated for total proceeds of \$55.9 million and \$99.5 million, respectively. There were minimal gross realized gains on these sales for the three and six months ended June 30, 2012.

The table below shows the fair value of short-term investments that have been in an unrealized loss position for less than 12 months (*in thousands*):

	June 30, 2013			
	Less than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate bonds	\$ 66,351	\$ (213)	\$ 66,351	\$ (213)
United States treasuries	44,881	(28)	44,881	(28)
Government agency securities	7,987	(13)	7,987	(13)
Total	\$ 119,219	\$ (254)	\$ 119,219	\$ (254)

As of December 31, 2012 we did not hold any short-term investments that were in a loss position. We did not hold any short-term investments that have been in an unrealized loss position for 12 months or longer for the periods noted in the table above.

The Company regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss was considered to be temporary or other-than-temporary and therefore impaired include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition and near-term prospects of the investee; and whether it is more likely than not that the Company will be required to sell the security prior to recovery. The Company believes the gross unrealized losses on the Company's short-term investments as of June 30, 2013 were temporary in nature and therefore did not recognize any impairment.

Contractual maturities of available-for-sale debt securities are as follows (*in thousands*):

	June 30, 2013
	Estimated Fair Value
Due in one year or less	\$ 247,937
Due in 1 - 2 years	32,271
Due in 2 - 3 years	60,124
Total available-for-sale securities	\$ 340,332

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*

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As of June 30, 2013 and December 31, 2012, restricted cash consisted of \$3.4 million and \$2.0 million, respectively, which serves as collateral for bank guarantees that provide financial assurance that the Company will fulfill certain customer obligations. This cash is held in custody by the issuing bank and is restricted as to withdrawal or use while the related bank guarantees are outstanding.

### *Accounts Receivable, Net*

Accounts receivable are shown net of the allowance for doubtful accounts of \$0.5 million as of June 30, 2013 and December 31, 2012.



Table of Contents*Inventories*

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

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Materials	\$ 36,499	\$ 36,523
Work in process	19,815	13,363
Finished goods	7,793	9,921
	\$ 64,107	\$ 59,807

*Cost Method Investment*

As of June 30, 2013 and December 31, 2012 we have recorded a total investment of \$15.3 million and \$14.5 million, respectively, in a rapidly developing organic light emitting diode ( OLED ) equipment company (the Investment ). Our ownership in the Investment is approximately 15.3% of the preferred shares and a 12.0% interest in the total of the company. Since we do not exert significant influence on the Investment, this investment is treated under the cost method in accordance with applicable accounting guidance. The fair value of this investment is not estimated because there are no identified events or changes in circumstances that may indicate an other-than-temporary decline in the fair value of the investment, and we are exempt from estimating interim fair values because the investment does not meet the definition of a publicly traded company. This investment is recorded in other assets in our Condensed Consolidated Balance Sheets. Subsequently, during the third quarter of 2013, we invested an additional \$0.8 million in the Investment.

*Customer Deposits*

As of June 30, 2013 and December 31, 2012, we had customer deposits of \$27.4 million and \$32.7 million, respectively, which are recorded as a component of accrued expenses and other current liabilities.

*Accrued Warranty*

We estimate the costs that may be incurred under the warranties 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. This accrual is recorded in accrued expenses and other current liabilities in our Condensed Consolidated Balance Sheets. 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*):

**June 30,**

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	2013		2012	
Balance as of the beginning of period	\$	4,942	\$	8,731
Warranties issued during the period		1,806		1,547
Settlements made during the period		(2,540)		(3,625)
Changes in estimate during the period				25
Balance as of the end of period	\$	4,208	\$	6,678

In the current year's presentation we no longer include installation in the accrued warranty balance; therefore, in order to conform the balance to current year presentation, we have reclassified \$1.047 million from the beginning balance of 2012 accrued warranty to accrued installation which, along with accrued warranty, is also a component of accrued expenses and other current liabilities.

Table of Contents*Mortgage Payable*

We have a mortgage payable with approximately \$2.3 million outstanding as of June 30, 2013 and \$2.4 million outstanding as of December 31, 2012. 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 as of June 30, 2013 was approximately \$2.4 million and \$2.6 million as of December 31, 2012.

*Accumulated Other Comprehensive Income*

The components of accumulated other comprehensive income are (*in thousands*):

As of June 30, 2013	Gross	Taxes	Net
Translation adjustments	\$ 5,967	\$ (528)	\$ 5,439
Minimum pension liability	(1,285)	510	(775)
Unrealized loss on available-for-sale securities	(215)	50	(165)
Accumulated other comprehensive income	\$ 4,467	\$ 32	\$ 4,499

As of December 31, 2012	Gross	Taxes	Net
Translation adjustments	\$ 7,040	\$ (339)	\$ 6,701
Minimum pension liability	(1,285)	510	(775)
Unrealized gain on available-for-sale securities	76	(29)	47
Accumulated other comprehensive income	\$ 5,831	\$ 142	\$ 5,973

**Note 4 Segment Information**

We manage the business, review operating results and assess performance, as well as allocate resources, based upon four reporting units that are aggregated into two segments: the VIBE and Mechanical reporting units which are reported in our Data Storage segment; and the MOCVD and molecular beam epitaxy ( MBE ) reporting units which are reported in our Light Emitting Diode ( LED ) and Solar segment. 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. Our LED & Solar segment consists of MOCVD systems, MBE systems and thermal deposition sources. These systems are primarily sold to customers in the LED, wireless devices and solar industries, as well as to scientific research customers. This segment has manufacturing, product development and marketing sites in Somerset, New Jersey; Poughkeepsie, New York; and St. Paul, Minnesota. Our 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 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 (in the aggregate 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 charges and equity-based compensation expense. The accounting policies of the reportable segments are the same as those described in the summary of critical accounting policies.



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The following tables present certain data pertaining to our reportable segments and a reconciliation of segment profit (loss) to income (loss) from continuing operations before income taxes for the three and six months ended June 30, 2013 and 2012, respectively, and goodwill and total assets as of June 30, 2013 and December 31, 2012 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate	Total
<b>Three months ended June 30, 2013</b>				
Net sales	\$ 75,933	\$ 21,502	\$	\$ 97,435
Segment profit (loss)	\$ 3,124	\$ (121)	\$ (5,247)	\$ (2,244)
Interest income, net			236	236
Amortization	(532)	(323)		(855)
Equity-based compensation	(1,316)	(488)	(1,909)	(3,713)
Income (loss) from continuing operations before income taxes	\$ 1,276	\$ (932)	\$ (6,920)	\$ (6,576)
<b>Three months ended June 30, 2012</b>				
Net sales	\$ 86,778	\$ 49,769	\$	\$ 136,547
Segment profit (loss)	\$ 9,587	\$ 12,136	\$ (1,404)	\$ 20,319
Interest income, net			329	329
Amortization	(861)	(324)		(1,185)
Equity-based compensation	(1,096)	(440)	(2,478)	(4,014)
Income (loss) from continuing operations before income taxes	\$ 7,630	\$ 11,372	\$ (3,553)	\$ 15,449
<b>Six months ended June 30, 2013</b>				
Net sales	\$ 118,240	\$ 40,976	\$	\$ 159,216
Segment (loss) profit	\$ (8,098)	\$ 254	\$ (10,058)	\$ (17,902)
Interest income, net			428	428
Amortization	(1,064)	(647)		(1,711)
Equity-based compensation	(2,026)	(618)	(3,648)	(6,292)
Restructuring	(423)	(50)	(58)	(531)
Loss from continuing operations before income taxes	\$ (11,611)	\$ (1,061)	\$ (13,336)	\$ (26,008)
<b>Six months ended June 30, 2012</b>				
Net sales	\$ 182,352	\$ 94,104	\$	\$ 276,456
Segment profit (loss)	\$ 27,073	\$ 21,089	\$ (2,489)	\$ 45,673
Interest income, net			532	532
Amortization	(1,724)	(676)		(2,400)
Equity-based compensation	(2,102)	(851)	(4,191)	(7,144)
Restructuring	(58)	(5)		(63)
Income (loss) from continuing operations before income taxes	\$ 23,189	\$ 19,557	\$ (6,148)	\$ 36,598
<b>As of June 30, 2013</b>				
Goodwill	\$ 55,828	\$	\$	\$ 55,828
Total assets	\$ 257,030	\$ 39,275	\$ 641,763	\$ 938,068
<b>As of December 31, 2012</b>				
Goodwill	\$ 55,828	\$	\$	\$ 55,828
Total assets	\$ 276,352	\$ 38,664	\$ 622,288	\$ 937,304

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### Note 5 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 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 June 30, 2013 and December 31, 2012, are as follows (*in thousands*):

June 30, 2013				
	Level 1	Level 2	Level 3	Total
United States treasuries	\$ 206,061	\$	\$	\$ 206,061
Commercial paper		4,000		4,000
Corporate bonds		75,628		75,628
Government agency securities		86,440		86,440
Total	\$ 206,061	\$ 166,068	\$	\$ 372,129

  

December 31, 2012				
	Level 1	Level 2	Level 3	Total
United States treasuries	\$ 278,698	\$	\$	\$ 278,698
Government agency securities		123,054		123,054
Total	\$ 278,698	\$ 123,054	\$	\$ 401,752

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Consistent with Level 1 measurement principles, treasury bills and treasury notes are priced using active market prices of identical securities. Consistent with Level 2 measurement principles, commercial paper, corporate bonds and government agency securities are priced with matrix pricing.

Government agency securities and treasury bills that are classified as cash equivalents are carried at cost, which approximates market value. Accordingly, no gains or losses (realized/unrealized) have been incurred for cash equivalents. All investments classified as available-for-sale are recorded at fair value within short-term investments in the Condensed Consolidated Balance Sheets.

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In determining the fair value of its investments and levels, the Company uses pricing information from pricing services that value securities based on quoted market prices in active markets and matrix pricing. Matrix pricing is a mathematical valuation technique that does not rely exclusively on quoted prices of specific investments, but on the investment's relationship to other benchmarked quoted securities. The Company has a challenge process in place for investment valuations to facilitate identification and resolution of potentially erroneous prices. The Company reviews the information provided by the third-party service provider to record the fair value of its portfolio.

**Note 6 Derivative Financial Instruments**

We use derivative financial instruments to minimize the impact of foreign currency exchange rate changes on earnings and cash flows. In the normal course of business, our operations are exposed to fluctuations in foreign currency 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 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. We have not designated these economic hedges as accounting hedges pursuant to the accounting guidance. 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 counterparty risk. The following tables are in thousands:

		June 30, 2013		
Not Designated as Hedges under ASC 815	Component of	Maturity Dates	Notional Amount	Fair Value
Foreign currency exchange forwards	Prepaid expenses and other current assets	July 2013	3,300	32
Total Derivative Instruments			\$ 3,300	\$ 32

		December 31, 2012		
Not Designated as Hedges under ASC 815	Component of	Maturity Dates	Notional Amount	Fair Value
Foreign currency exchange forwards	Prepaid expenses and other current assets	January 2013	9,590	244
Total Derivative Instruments			\$ 9,590	\$ 244

Derivative	Location of Realized Net (Loss) Gain and Changes in the Fair Value of Derivatives	For the three months ended June 30,		For the six months ended June 30,	
		2013	2012	2013	2012
Foreign currency exchange forwards	Other, net	\$ (71)	\$ (158)	\$ 157	\$ (78)
Weighted average notional amount of derivatives outstanding		\$ 1,360	\$ 2,560	\$ 1,994	\$ 2,501



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During the six months ended June 30, 2013 and 2012, we took measures to improve profitability, including a reduction of discretionary expenses, realignment of our senior management team and consolidation of certain sales, business and administrative functions. As a result of these actions, we recorded a restructuring charge of \$0.5 million and \$0.1 million, respectively. We did not record any restructuring charges during the three months ended June 30, 2013 and 2012.

		For the six months ended June 30,	
		2013	2012
Personnel severance and related costs	\$	435	\$ 63
Other associated costs		96	
	\$	531	\$ 63

*Restructuring Liability*

The following is a reconciliation of the restructuring liability through June 30, 2013 (*in thousands*):

	LED & Solar		Data Storage		Unallocated Corporate		Total
<b>Short-term liability</b>							
Balance as of January 1, 2013	\$	448	\$	1,308	\$	119	\$ 1,875
Restructuring		422		51		58	531
Cash payments		(805)		(926)		(166)	(1,897)
Balance as of June 30, 2013	\$	65	\$	433	\$	11	\$ 509

The balance of the short-term liability will be paid over the next 12 months.

The following is a reconciliation of the restructuring liability through December 31, 2012 (*in thousands*):

	LED & Solar		Data Storage		Unallocated Corporate		Total
<b>Short-term liability</b>							
Balance as of January 1, 2012	\$	534	\$	128	\$	294	\$ 956
Restructuring		874		1,684		135	2,693

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Cash payments		(960)		(504)		(310)		(1,774)
Balance as of December 31, 2012	\$	448	\$	1,308	\$	119	\$	1,875

## Note 8 Subsequent Events

*Notice of Potential De-Listing:* During our internal control evaluation and accounting review, we were unable to timely file our periodic statements with the SEC and, as of the date of this Report, have yet to become current with all our required filings. We have been notified by the NASDAQ Stock Market that our common stock listing will be suspended if we have not filed all of our outstanding periodic reports with the SEC on or before November 4, 2013. If our stock is delisted, then it will no longer be traded on the NASDAQ Global Select Market, however, it would continue to trade in the over-the-counter market, which may have an adverse effect on the trading price of our stock.

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*Acquisition of Synos Technology, Inc. ( Synos ):* On October 1, 2013, we acquired Synos, which designs and manufactures Fast Array Scanning Atomic Layer Deposition systems ( ALD ) that are enabling the production of flexible organic light-emitting diode ( OLED ) displays for mobile devices. The initial purchase price is \$70 million. The agreement also includes an earn-out feature that would require an additional payment of up to \$115 million if future performance milestones are achieved prior to December 31, 2014. With the earn-out feature, the total maximum potential purchase price is \$185 million. Synos is headquartered in Fremont, California and has approximately 50 employees. Preliminary purchase accounting allocations for Synos are not yet available.

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

**Executive Summary**

Veeco Instruments Inc. (together with its consolidated subsidiaries, Veeco, the Company, we, us, and our, unless the context indicates otherwise) creates Process Equipment that enables technologies for a cleaner and more productive world. We design, manufacture and market equipment to make light emitting diodes ( LED s) and hard-disk drives, as well as for concentrator photovoltaics, power semiconductors, wireless components, and micro-electromechanical systems ( MEMS ).

Veeco develops highly differentiated, best-in-class Process Equipment for critical performance steps. Our products feature leading technology, low cost-of-ownership and high throughput. Core competencies in advanced thin film technologies, over 200 patents, and decades of specialized process know-how helps us to stay at the forefront of these demanding industries.

*Veeco's LED & Solar segment* designs and manufactures metal organic chemical vapor deposition ( MOCVD ) and molecular beam epitaxy ( MBE ) systems and components sold to manufacturers of LEDs, wireless components, power semiconductors, and concentrator photovoltaics, as well as to R&D applications.

*Veeco's Data Storage segment* designs and manufactures systems used to create thin film magnetic heads ( TFMH s) that read and write data on hard disk drives. These include ion beam etch, ion beam deposition, diamond-like carbon, physical vapor deposition, chemical vapor deposition, and slicing, dicing and lapping systems. While our systems are primarily sold to hard drive customers, they also have applications in optical coatings, MEMS and magnetic sensors, and extreme ultraviolet ( EUV ) lithography.

As of September 30, 2013, Veeco's approximately 780 employees support our customers through product and process development, training, manufacturing, and sales and service sites in the U.S., South Korea, Taiwan, China, Singapore, Japan, Europe and other locations.

Veeco Instruments was organized as a Delaware corporation in 1989.

**Highlights of the Second Quarter of 2013**

- Revenue was \$97.4 million, a 28.6% decrease from the second quarter of 2012.
- Bookings were \$84.8 million, a 17.3% decrease from the second quarter of 2012.
- Net (loss) income from continuing operations was \$(4.1) million, or \$(0.11) per share, compared to \$11.0 million, or \$0.28 per share, in the second quarter of 2012.
- Gross margins were 35.6%, compared to 44.9% in the second quarter of 2012.

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**Outlook**

Through the first nine months of 2013, we have not seen any clear signs that customer overcapacity in our MOCVD business and weak end-market demand in our Data Storage segment will improve in the near term. Our customers continue to guard spending tightly and limit capacity expansions. The LED industry is still in an equipment digestion period and near term visibility remains limited. With few MOCVD deals available, we have also experienced increased pricing pressure. In our Data Storage segment, our hard drive customers are experiencing weak end-market demand which has resulted in excess manufacturing capacity, therefore they are only making select technology purchases. While our overall bookings have continued to decline in 2013, bookings in our Data Storage segment have been relatively flat for the first nine months of 2013 compared to the first nine months of 2012.

While the Company has been actively working to reduce costs during this extended business downturn, pricing pressure and persistent low volumes in MOCVD represent significant headwinds and have caused the Company to move to a loss in 2013.

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.

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

**Results of Operations:**

**Three Months Ended June 30, 2013 and 2012**

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 2013 interim quarter ends were March 31, June 30 and September 29. The 2012 interim quarter ends are April 1, July 1 and September 30. 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 Operations, percentages of sales, and comparisons between the three months ended June 30, 2013 and 2012 (*dollars in thousands*):

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	Three months ended June 30,				Dollar and Percentage Change Period to Period	
	2013		2012			
Net sales	\$ 97,435	100.0%	\$ 136,547	100.0%	\$ (39,112)	(28.6)%
Cost of sales	62,795	64.4	75,293	55.1	(12,498)	(16.6)
Gross profit	34,640	35.6	61,254	44.9	(26,614)	(43.4)
Operating expenses (income):						
Selling, general and administrative	19,779	20.3	20,893	15.3	(1,114)	(5.3)
Research and development	20,870	21.4	23,910	17.5		