

VEECO INSTRUMENTS INC  
Form 10-Q  
October 28, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2010

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

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**VEECO INSTRUMENTS INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**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

39,904,001 shares of common stock, \$0.01 par value per share, were outstanding as of the close of business on October 27, 2010.

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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. 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:

- The reduction or elimination of government subsidies and economic incentives may adversely affect the future order rate for our MOCVD equipment;
- Our failure to successfully implement outsourcing activities or failure of our outsourcing partners to perform as anticipated could adversely affect our results of operations and our ability to realize the benefits of the recent increase in MOCVD order volume;
- 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 which are sole-source suppliers;
- 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;

- 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;

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- We are subject to foreign currency exchange risks;
- The enforcement and protection of our intellectual property rights may be expensive and could divert our valuable 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 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.

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 <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 Internet site, as soon as reasonably practicable after we electronically file such material with the SEC.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 277,094	\$ 74,688	\$ 633,233	\$ 163,270
Cost of sales	141,612	44,141	342,210	105,566
Gross profit	135,482	30,547	291,023	57,704
Operating expenses (income):				
Selling, general and administrative	24,565	15,631	62,852	41,926
Research and development	18,306	10,662	47,861	29,327
Amortization	1,237	1,270	3,711	3,775
Restructuring		781	(179)	4,770
Asset impairment				304
Other, net	(275)	(307)	75	368
Total operating expenses	43,833	28,037	114,320	80,470
Operating income (loss)	91,649	2,510	176,703	(22,766)
Interest expense, net	1,637	1,656	5,181	5,063
Income (loss) from continuing operations before income taxes	90,012	854	171,522	(27,829)
Income tax (benefit) provision	(1,092)	823	7,663	2,379
Income (loss) from continuing operations	91,104	31	163,859	(30,208)
Discontinued operations:				
(Loss) income from discontinued operations	(4,311)	978	3,546	(5,206)
Income tax provision (benefit)	630	(261)	2,805	(1,037)
(Loss) income from discontinued operations	(4,941)	1,239	741	(4,169)
Net income (loss)	86,163	1,270	164,600	(34,377)
Net loss attributable to noncontrolling interest				(65)
Net income (loss) attributable to Veeco	\$ 86,163	\$ 1,270	\$ 164,600	\$ (34,312)
Income (loss) per common share attributable to Veeco:				
Basic:				
Continuing operations	\$ 2.28	\$	\$ 4.15	\$ (0.96)
Discontinued operations	(0.12)	0.04	0.02	(0.13)
Income (loss)	\$ 2.16	\$ 0.04	\$ 4.17	\$ (1.09)
Diluted :				
Continuing operations	\$ 2.16	\$	\$ 3.89	\$ (0.96)
Discontinued operations	(0.12)	0.04	0.02	(0.13)
Income (loss)	\$ 2.04	\$ 0.04	\$ 3.91	\$ (1.09)



Weighted average shares outstanding:				
Basic	39,946	31,608	39,508	31,540
Diluted	42,258	32,375	42,175	31,540

**Veeco Instruments Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 86,163	\$ 1,270	\$ 164,600	\$ (34,377)
Other comprehensive income (loss), net of tax				
Foreign currency translation	985	966	160	20
Unrealized gain on available-for-sale securities	252		252	
Comprehensive income (loss)	87,400	2,236	165,012	(34,357)
Comprehensive loss attributable to noncontrolling interest				(65)
Comprehensive income (loss) attributable to Veeco	\$ 87,400	\$ 2,236	\$ 165,012	\$ (34,292)

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)

	September 30, 2010 (Unaudited)	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 278,144	\$ 148,500
Short-term investments	157,111	135,000
Restricted cash	31,581	
Accounts receivable, net	129,574	67,546
Inventories	80,544	55,807
Prepaid expenses and other current assets	31,146	6,419
Assets of discontinued segment held for sale	80,252	40,058
Deferred income taxes	38,892	3,105
Total current assets	827,244	456,435
Property, plant and equipment at cost, net	45,490	44,707
Goodwill	52,003	52,003
Intangible assets, net	18,058	21,770
Other assets	901	429
Assets of discontinued segment held for sale		30,028
Total assets	\$ 943,696	\$ 605,372
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 44,793	\$ 24,910
Accrued expenses and other current liabilities	192,122	99,823
Deferred profit	5,853	2,520
Income taxes payable	44,034	829
Liabilities of discontinued segment held for sale	12,000	10,824
Current portion of long-term debt	225	212
Total current liabilities	299,027	139,118
Deferred income taxes	3,019	5,039
Long-term debt	103,063	100,964
Other liabilities	315	1,192
Equity	538,272	359,059
Total liabilities and equity	\$ 943,696	\$ 605,372

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)

	Nine months ended September 30,	
	2010	2009
<b>Operating activities</b>		
Net income (loss)	\$ 164,600	\$ (34,377)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,952	10,766
Amortization of debt discount	2,269	2,114
Non-cash equity-based compensation	7,003	5,106
Non-cash asset impairment		304
Non-cash inventory write-off		1,526
Non-cash restructuring	(179)	4,770
Deferred income taxes	(37,850)	683
Non-cash cash flows from discontinued operations	7,050	7,995
Other, net	3	34
Changes in operating assets and liabilities:		
Accounts receivable	(61,499)	(5,324)
Inventories	(24,579)	13,406
Accounts payable	19,908	2,378
Accrued expenses, deferred profit and other current liabilities	138,947	12,079
Cash flows from discontinued operations	(11,703)	6,718
Other, net	(26,051)	(6,510)
Net cash provided by operating activities	187,871	21,668
<b>Investing activities</b>		
Capital expenditures	(8,023)	(4,584)
Payments for net assets of businesses acquired		(2,413)
Payments of earn-outs for businesses acquired		(9,839)
Transfers to restricted cash	(31,581)	(482)
Proceeds from the maturity of CDARS	213,641	
Proceeds from sales of short-term investments	11,013	
Payments for purchases of short-term investments	(246,514)	
Purchases of treasury stock	(31,602)	
Proceeds from the sale of property, plant and equipment	13	834
Cash flows from discontinued operations	1,682	(600)
Net cash used in investing activities	(91,371)	(17,084)
<b>Financing activities</b>		
Proceeds from stock option exercises	36,060	2,904
Restricted stock tax withholdings	(2,898)	(495)
Repayments of long-term debt	(157)	(146)
Net cash provided by financing activities	33,005	2,263
Effect of exchange rate changes on cash and cash equivalents	139	(8)
Net increase in cash and cash equivalents	129,644	6,839
Cash and cash equivalents at beginning of period	148,500	102,521
Cash and cash equivalents at end of period	\$ 278,144	\$ 109,360
<b>Non-cash investing and financing activities</b>		
Accrual of payment for net assets of businesses acquired	\$	\$ 1,000
Transfers from property, plant and equipment to inventory	1,114	1,159
Transfers from inventory to property, plant and equipment	850	23
Sale of property, plant and equipment with note receivable	140	

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 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, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

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 2010 interim quarter ends are March 28, June 27 and September 26. The 2009 interim quarter ends were March 29, June 28 and September 27. 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 (Loss) Per Common Share attributable to Veeco*

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,	
	2010	2009	2010	2009
Basic weighted average shares outstanding	39,946	31,608	39,508	31,540
Dilutive effect of stock options and restricted stock	1,301	767	1,540	
Dilutive effect of convertible notes	1,011		1,127	
Diluted weighted average shares outstanding	42,258	32,375	42,175	31,540

Basic income (loss) per common share attributable to Veeco is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share attributable to Veeco is computed using the weighted average number of common shares and common equivalent shares outstanding during the period. For the nine months ended September 30, 2009, the effect of approximately 0.2 million shares were excluded from the computation of diluted weighted average shares outstanding due to the net loss sustained in the period as their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2010, no shares were excluded from the computation of diluted weighted average shares outstanding.

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Our convertible notes meet the criteria for determining the effect of the assumed conversion using the treasury stock method of accounting, as long as we have the ability and the intent to settle the principal amount of the notes in cash. Under the terms of these notes, we may pay the principal amount of converted notes in cash or in shares of common stock. We have indicated that we intend to pay the principal amount in cash. Using the treasury stock method, it was determined that the impact of the assumed conversion for the three and nine months ended September 30, 2010, had a dilutive affect of 1.0 million and 1.1 million common equivalent shares, respectively, for the three months ended September 30, 2009, the impact was anti-dilutive, due to the conversion price being out of the money for the period and for the nine months ended September 30, 2009, the impact was anti-dilutive, due to the net loss sustained in the period. The effect of the assumed converted shares is dependent on the stock price at the time of the conversion. The maximum number of common equivalent shares issuable upon conversion at September 30, 2010 was approximately 5.4 million.

On or after April 20, 2011, we may redeem the notes, in whole or in part, for cash at 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. Holders may convert the convertible notes at any time during the period beginning on January 15, 2012 through the

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close of business on the second day prior to April 15, 2012 and earlier upon the occurrence of certain events including if the notes have been called for redemption or if, for a given fiscal quarter our common stock trades at prices equal to 130% of the conversion price for at least 20 trading days during the final 30 trading days of the immediately preceding fiscal quarter. At the end of the third quarter of 2010, our common stock was not trading at prices equal to or above 130% of the conversion price for the specified period and, as a result, the convertible notes will not be convertible during the fourth quarter of 2010. If the convertible notes are converted, we have the ability and intent to pay the principal balance of notes tendered for conversion in cash. We will re-perform this test each quarter up to and including the fourth quarter of 2011. See Note 7 for further details on our debt.

*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 Federal Deposit Insurance Corporation ( FDIC ) insured corporate bonds, treasury bills, commercial paper and certificates of deposit placed through an account registry service ( 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 (loss). CDARS, commercial paper and treasury bills classified as cash equivalents are carried at cost, which approximates fair market value.

*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 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 gain (loss) included in determining the condensed consolidated results of operations was approximately \$0.1 million and \$(0.1) million during the three months ended September 30, 2010 and 2009, respectively. Included in the aggregate foreign currency exchange gain were losses related to forward contracts of \$(0.1) million during the three months ended September 30, 2010. The aggregate foreign currency exchange loss included in determining the condensed consolidated results of operations was approximately \$(0.3) million and \$(0.6) million during the nine months ended September 30, 2010 and 2009, respectively. Included in the aggregate foreign currency exchange loss were gains related to forward contracts of \$0.1 million during the nine months ended September 30, 2009.

These amounts were recognized and are included in Other, net in the accompanying condensed consolidated statements of operations. As of September 30, 2010, approximately \$0.2 million of losses related to forward contracts were included in accrued expenses and other current liabilities and were subsequently paid in October 2010. As of December 31, 2009, approximately \$0.2 million of gains related to forward contracts were included in prepaid expenses and other current assets and were subsequently received in January 2010. Monthly forward contracts with a notional amount of \$1.7 million, entered into in September 2010 for October 2010, will be settled in October 2010.

The weighted average notional amount of derivative contracts outstanding during the three and nine months ended September 30, 2010 were approximately \$6.8 and \$5.9 million, respectively.

**Note 2 Discontinued Operations**

On August 15, 2010, we signed a definitive agreement to sell our metrology business to Bruker Corporation for approximately \$229 million, comprising our entire Metrology reporting segment. Accordingly, Metrology's operating results are accounted for as discontinued operations in determining the condensed consolidated results of operations for all periods presented. Additionally, Metrology's assets and liabilities are classified as held for sale on our condensed consolidated balance sheet for all periods presented. The sales transaction closed on October 7, 2010.



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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 31,880	\$ 24,225	\$ 92,011	\$ 70,512
Gross profit	15,623	10,361	44,189	27,970
Total operating expenses	19,934	9,383	40,643	33,176
Operating (loss) income	(4,311)	978	3,546	(5,206)
Net (loss) income from discontinued operations, net of tax	(4,941)	1,239	741	(4,169)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash	\$ 48	\$ 89
Accounts receivable, net	27,669	16,812
Inventories	26,047	21,757
Property, plant and equipment at cost, net	13,412	14,682
Goodwill	7,419	7,419
Other assets	5,657	9,327
Assets of discontinued segment held for sale	\$ 80,252	\$ 70,086
<b>Liabilities</b>		
Accounts payable	\$ 7,287	\$ 4,202
Accrued expenses and other current liabilities	4,713	6,622
Liabilities of discontinued segment held for sale	\$ 12,000	\$ 10,824

**Note 3 Equity-based Compensation Plans***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 each employee's requisite service period. The following compensation expense was included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009 (*in thousands*):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Equity-based compensation expense	\$ 7,514	\$ 2,400	\$ 12,642	\$ 5,953

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As a result of the sale of our Metrology segment to Bruker Corporation, equity-based compensation expense related to Metrology employees has been classified as discontinued operations in determining the condensed consolidated results of operations for the three and nine months ended September 30, 2010 and 2009. For the three and nine months ended September 30, 2010, \$4.9 million and \$5.6 million of equity-based compensation expense has been classified as discontinued operations. For the three and nine months ended September 30, 2009, \$0.3 million and \$0.9 million of equity-based compensation expense has been classified as discontinued operations. For the three and nine months ended September 30, 2010, total equity-based compensation expense included a charge of \$4.5 million related to the acceleration of equity awards associated with the sale of our Metrology business. We expect to recognize approximately \$2.0 million of additional equity-based compensation expense in the fourth quarter related to the acceleration of these awards.

As of September 30, 2010, the total unrecognized compensation costs related to nonvested stock and stock option awards was \$9.4 million and \$15.7 million, respectively. The related weighted average period over which we

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expect that such unrecognized compensation costs will be recognized is approximately 2.8 years for nonvested stock awards and 2.2 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, 2010, is presented below:

	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2010	892	\$ 12.97
Granted	179	34.78
Vested	(306)	12.89
Forfeited (including cancelled awards)	(15)	14.25
Nonvested at September 30, 2010	750	18.19

A summary of our stock option awards for the nine months ended September 30, 2010, is presented below:

	Shares (000s)	Weighted- Average Exercise Price	Aggregate Intrinsic Value (000s)	Weighted- Average Remaining Contractual Life (in years)
Outstanding at January 1, 2010	4,506	\$ 16.35		
Granted	631	34.21		
Exercised	(1,951)	18.95		
Forfeited (including cancelled options)	(42)	13.63		