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

Washington, D.C. 20549

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 September 30, 2012

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	**11-2989601**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
Terminal Drive **Plainview, New York**	**11803**
(Address of Principal Executive Offices)	(Zip Code)

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

Website: **www.veeco.com**

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

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

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

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

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

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, will and similar expressions are intended to identify forward-looking statement 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;
- Market adoption of light emitting diode (LED) technology for general lighting could be slower than anticipated;
- 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;
- 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, while manufacturing interruptions or delays could affect our ability to meet customer demand;
- The cyclicality 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;
- 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, located primarily in a limited number of regions, that operate in highly concentrated industries;

- 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;

- We are subject to foreign currency exchange risks;

- The enforcement and protection of our intellectual property rights may be expensive and could divert our limited resources;

- We may be subject to claims of intellectual property infringement by others;

- Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses;

- We may be required to take additional impairment charges for goodwill and indefinite-lived intangible assets or definite-lived intangible and long-lived assets;

- Changes in accounting pronouncements or taxation rules or practices may adversely affect our financial results;

- We are subject to 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;

- 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;

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- 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;

- 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;

- 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 do not undertake any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

Explanatory Note

This is our first periodic report since June 30, 2012. Due to the amount of time that has passed since our last periodic report was filed with the Securities and Exchange Commission (SEC) and the changes that have occurred in our business and industry in the interim, the information relating to our business and related matters is focused on our more recent periods and also includes certain information for periods after September 30, 2012. We intend to file our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly reports on Form 10-Q for each of the quarters ended March 31, 2013 and June 30, 2013 as soon as it is practical.

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 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 this or any other prior periods. During the course of our review, we identified net cumulative errors which overstated cumulative net income from continuing operations through December 31, 2011 by $0.6 million and net cumulative errors that understated net income from continuing operations in the six month period ended June 30, 2012 by $1.1 million. As a result, in the third quarter of 2012, we recorded adjustments to correct all prior periods resulting in an increase in revenues of $5.4 million and an increase in income from continuing operations of $0.5 million.

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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 Form 10-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*. For quarterly and annual reports, only those reports that were required to be filed through September 30, 2012 are available as of the date of this Report.

Internet Address

We maintain a website where additional information concerning our business and various upcoming events can be found. The address of our website is *www.veeco.com.* We provide a link on our website, under Investors Financial Information SEC Filings, through which investors can access our filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to such reports. These filings are posted to our website as soon as reasonably practicable after we electronically file such material with the SEC. For quarterly and annual reports, only those reports that were required to be filed through September 30, 2012 are available as of the date of this Report.

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VEECO INSTRUMENTS INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net sales	$ 132,715	$ 267,959	$ 409,171	$ 787,450
Cost of sales	82,831	143,025	232,765	396,204
Gross profit	49,884	124,934	176,406	391,246
Operating expenses (income):				
Selling, general and administrative	13,892	23,569	54,558	73,966
Research and development	25,775	26,404	72,991	69,927
Amortization	1,477	1,277	3,877	3,519
Restructuring	2,014		2,077	
Other, net	(737)	(199)	(626)	(228)
Total operating expenses	42,421	51,051	132,877	147,184
Operating income	7,463	73,883	43,529	244,062
Interest income (expense), net	176	244	708	(1,142)
Loss on extinguishment of debt				(3,349)
Income from continuing operations before income taxes	7,639	74,127	44,237	239,571
Income tax (benefit) provision	(59)	21,510	9,066	72,657
Income from continuing operations	7,698	52,617	35,171	166,914
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	5,396	(23,839)	6,534	(91,574)
Income tax provision (benefit)	1,341	(7,085)	1,722	(32,371)
Income (loss) from discontinued operations	4,055	(16,754)	4,812	(59,203)
Net income	$ 11,753	$ 35,863	$ 39,983	$ 107,711
Income (loss) per common share:				
Basic:				
Continuing operations	$ 0.20	$ 1.34	$ 0.92	$ 4.16
Discontinued operations	0.10	(0.43)	0.12	(1.48)
Income	$ 0.30	$ 0.91	$ 1.04	$ 2.68
Diluted :				
Continuing operations	$ 0.20	$ 1.31	$ 0.90	$ 3.98
Discontinued operations	0.10	(0.41)	0.13	(1.41)
Income	$ 0.30	$ 0.90	$ 1.03	$ 2.57

Weighted average shares outstanding:				
Basic	38,577	39,335	38,402	40,132
Diluted	39,169	40,069	39,006	41,941

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

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Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income	$ 11,753	$ 35,863	$ 39,983	$ 107,711
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available-for-sale securities	108	8	(76)	357
Less: Reclassification adjustments for gains included in net income	(11)	(135)	(20)	(264)
Net unrealized gain (loss) on available-for-sale securities	97	(127)	(96)	93
Foreign currency translation	246	70	1	1,227
Comprehensive income	$ 12,096	$ 35,806	$ 39,888	$ 109,031

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 share data)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 387,048	$ 217,922
Short-term investments	185,692	273,591
Restricted cash	852	577
Accounts receivable, net	60,320	95,038
Inventories	74,360	113,434
Prepaid expenses and other current assets	40,964	40,756
Assets of discontinued segment held for sale		2,341
Deferred income taxes	8,974	10,885
Total current assets	758,210	754,544
Property, plant and equipment at cost, net	99,058	86,067
Goodwill	55,828	55,828
Intangible assets, net	22,006	25,882
Other assets	19,453	13,742
Total assets	$ 954,555	$ 936,063
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 35,429	$ 40,398
Accrued expenses and other current liabilities	87,318	106,626
Deferred revenue	5,716	11,305
Income taxes payable	1,096	3,532
Liabilities of discontinued segment held for sale		5,359
Current portion of long-term debt	263	248
Total current liabilities	129,822	167,468
Deferred income taxes	5,023	5,029
Long-term debt	2,207	2,406
Other liabilities	303	640
Total liabilities	137,355	175,543
Equity:		
Preferred stock, 500,000 shares authorized; no shares issued and outstanding		
Common stock; $.01 par value; authorized 120,000,000 shares; 39,334,469 shares issued and outstanding in 2012; and 44,047,264 and 38,768,436 shares issued and outstanding in 2011	393	435
Additional paid-in-capital	705,134	688,353
Retained earnings	105,178	265,317
Accumulated other comprehensive income	6,495	6,590
Less: treasury stock, at cost; 5,278,828 shares in 2011		(200,175)
Total equity	817,200	760,520
Total liabilities and equity	$ 954,555	$ 936,063

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, 2012	2011
Cash Flows from Operating Activities		
Net income	$ 39,983	$ 107,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,181	9,291
Amortization of debt discount		1,260
Non-cash equity-based compensation	10,629	9,472
Loss on extinguishment of debt		3,349
Deferred income taxes	278	6,800
Gain on disposal of segment	(4,112)	
Excess tax benefits from stock option exercises	(2,211)	(8,601)
Other, net	10	
Non-cash items from discontinued operations	(904)	44,381
Changes in operating assets and liabilities:		
Accounts receivable	34,486	36,222
Transfers to restricted cash	(275)	
Inventories	40,271	(32,639)
Prepaid expenses and other current assets	(219)	(32,645)
Accounts payable	(2,811)	12,494
Accrued expenses, deferred revenue and other current liabilities	(24,897)	(49,685)
Income taxes payable	(224)	(43,023)
Other, net	5,582	(4,292)
Discontinued operations	(1,932)	
Net cash provided by operating activities	105,835	60,095
Cash Flows from Investing Activities		
Capital expenditures	(22,706)	(47,516)
Payments for net assets of businesses acquired		(28,273)
Payment for purchase of cost method investment	(10,341)	
Transfers from restricted cash		53,216
Proceeds from sales of short-term investments	176,303	667,216
Payments for purchases of short-term investments	(89,848)	(486,639)
Other	58	110
Proceeds from sale of assets from discontinued segment	3,758	
Net cash provided by investing activities	57,224	158,114
Cash Flows from Financing Activities		
Proceeds from stock option exercises	5,370	9,975
Restricted stock tax withholdings	(1,418)	(2,919)
Excess tax benefits from stock option exercises	2,211	8,601
Purchases of treasury stock		(162,077)
Repayments of long-term debt	(184)	(105,745)
Net cash provided by (used in) financing activities	5,979	(252,165)
Effect of exchange rate changes on cash and cash equivalents	88	2,060
Net increase (decrease) in cash and cash equivalents	169,126	(31,896)

Cash and cash equivalents at beginning of period		217,922		245,132
Cash and cash equivalents at end of period	$	387,048	$	213,236
Supplemental disclosure of cash flow information				
Non-cash investing and financing activities				
Transfers from property, plant and equipment to inventory	$	1,242	$	

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 nine months ended September 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

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 2012 interim quarter ends are April 1, July 1 and September 30. The 2011 interim quarter ends were April 3, July 3 and October 2. 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 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 this or any other prior periods. During the course of our review, we identified net cumulative errors which overstated cumulative net income from continuing operations through December 31, 2011 by $0.6 million and net cumulative errors that understated net income from continuing operations in the six month period ended June 30, 2012 by $1.1 million. As a result, in the third quarter of 2012, we recorded adjustments to correct all prior periods resulting in an increase in revenues of $5.4 million and an increase in income from continuing operations of $0.5 million.

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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 information.

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 at 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.

Income Per Common Share

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	**2011**	**2012**	**2011**
Basic weighted average shares outstanding	38,577	39,335	38,402	40,132
Dilutive effect of stock options and restricted stock	592	734	604	983
Dilutive effect of convertible notes				826
Diluted weighted average shares outstanding	39,169	40,069	39,006	41,941

Basic income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding during the period. Potentially dilutive securities attributable to outstanding stock options and restricted stock of approximately 1.1 million and 1.2 million common equivalent shares during the three and nine months ended September 30, 2012 and approximately 1.2 million and 0.6 million common equivalent shares during the three and nine months ended September 30, 2011 were excluded from the calculation of diluted net income per share because their effect on income per share was anti-dilutive.

During the second quarter of 2011, the entire outstanding principal balance of our convertible debt was converted, with the principal amount paid in cash and the conversion premium paid in shares. The convertible notes met the criteria for determining the effect of the assumed conversion using the treasury stock method of accounting, since we had settled the principal amount of the notes in cash. Using the treasury stock method, it was determined that the impact of the assumed conversion for the nine months ended September 30, 2011, had a dilutive effect of 0.8 million common equivalent shares.

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 at 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

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

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

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

Metrology

On August 15, 2010, we signed a definitive agreement to sell our Metrology business to Bruker Corporation (Bruker) comprising our entire Metrology reporting segment for $229.4 million. Accordingly, Metrology s operating results are accounted for as discontinued operations in determining the consolidated results of operations. The sale transaction closed on October 7, 2010, except for assets located in China due to local restrictions. Total proceeds, which included a working capital adjustment of $1 million, totaled $230.4 million of which $7.2 million relates to the assets in China. As part of our agreement with Bruker, $22.9 million of proceeds was held in escrow and was restricted from use for one year following the closing date of the transaction to secure certain specified losses in the event of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents. The restriction relating to the escrowed proceeds was released on October 6, 2011. As part of the sale we incurred transaction costs, which consisted of investment banking fees and legal fees, totaling $5.2 million. During the fourth quarter of 2010, we recognized a pre-tax gain on disposal of $156.3 million and a pre-tax deferred gain of $5.4 million related to the assets in China. We recognized into income the pre-tax deferred gain of $5.4 million during the third quarter of 2012 related to the completion of the sale of the assets in China to Bruker.

Discontinued operations for the three and nine months ended September 30, 2012 include the realization of the $5.4 million 2010 deferred gain ($4.1 million net of taxes) relating to the net assets in China, which was finalized during the third quarter. The nine months ended September 30, 2012, also includes a $1.4 million gain ($1.1 million net of taxes) on the sale of assets of this discontinued segment that were previously held for sale and sold during the second quarter.

The following is a summary of the net assets sold as of the closing date on October 7, 2010 *(in thousands)*:

		October 7, 2010
Assets		
Accounts receivable, net	$	21,866
Inventories		26,431
Property, plant and equipment at cost, net		13,408
Goodwill		7,419
Other assets		5,485
Assets of discontinued segment held for sale	$	74,609
Liabilities		
Accounts payable	$	7,616
Accrued expenses and other current liabilities		5,284
Liabilities of discontinued segment held for sale	$	12,900

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

	Three months ended September 30, 2012			Three months ended September 30, 2011		
	Solar Systems	**Metrology**	**Total**	**Solar Systems**	**Metrology**	**Total**
Net sales	$	$	$	$	$	$
Net (loss) income from discontinued operations	$ (9)	$ 4,064	$ 4,055	$ (16,366)	$ (388)	$ (16,754)

	Nine months ended September 30, 2012			Nine months ended September 30, 2011		
	Solar Systems	**Metrology**	**Total**	**Solar Systems**	**Metrology**	**Total**
Net sales	$	$	$	$	$	$
Net (loss) income from discontinued operations	$ (63)	$ 4,875	$ 4,812	$ (58,268)	$ (935)	$ (59,203)

Liabilities of discontinued segment held for sale, totaling $5.4 million, as of December 31, 2011, consisted of the deferred gain related to the net assets of the former Metrology business in China.

Note 3 Equity

Treasury Stock

On August 24, 2010, our Board of Directors authorized the repurchase of up to $200 million of our common stock. During the three months ended September 30, 2011, we purchased 3,994,940 shares for $154.3 million (including transaction costs) under the program at an average cost of $38.63 per share. During the nine months ended September 30, 2011, we purchased 4,160,228 shares for $162.1 million (including transaction costs) under the program at an average cost of $38.96 per share. These stock repurchases are included as a reduction to Equity in the Condensed Consolidated Balance Sheet as of December 31, 2011. All funds for this repurchase program were exhausted as of August 19, 2011. Repurchases were made from time to time on the open market in accordance with applicable federal securities laws. During the nine months ended September 30, 2012, we cancelled and retired the 5,278,828 shares of treasury stock we purchased under the repurchase program. As a result of this transaction, we recorded a reduction in treasury stock of $200.2 million and a corresponding reduction of $200.1 million and $0.1 million in retained earnings and common stock, respectively.

Note 4 Balance Sheet Information

Short-Term Investments

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

	September 30, 2012			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Treasury bills	$ 117,872	$ 54	$	$ 117,926
Government Agency Securities	39,559	4	(1)	39,562
FDIC guaranteed corporate debt	28,198	6		28,204
Total available-for-sale securities	$ 185,629	$ 64	$ (1)	$ 185,692

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	December 31, 2011			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Treasury bills	$ 70,147	$ 46	$ (1)	$ 70,192
Government agency securities	88,585	62	(6)	88,641
FDIC guaranteed corporate debt	114,640	125	(7)	114,758
Total available-for-sale securities	$ 273,372	$ 233	$ (14)	$ 273,591

During the three and nine months ended September 30, 2012, available-for-sale securities were sold for total proceeds of $76.8 million and $176.3 million, respectively. The gross realized gains and losses on these sales were minimal for the three and nine months ended September 30, 2012. During the three months ended September 30, 2012, minimal net unrealized holding gains on available-for-sale securities have been included in accumulated other comprehensive income. During the nine months ended September 30, 2012, net unrealized holding losses on available-for-sale securities of $0.2 million have been included in accumulated other comprehensive income. During the three and nine months ended September 30, 2011, available-for-sale securities were sold for total proceeds of $292.9 million and $667.2 million, respectively. The gross realized gains on these sales were $0.2 million and $0.4 million for the three and nine months ended September 30, 2011, respectively. Net unrealized holding (losses) gains on available-for-sale securities amounting to $(0.1) million and $0.1 million for the three and nine months ended September 30, 2011, respectively, have been included in accumulated other comprehensive income. For purpose of determining gross realized gains and losses for the current and prior year periods, the cost of securities sold is based on specific identification.

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

	September 30, 2012			
	Less than 12 months		Total	
	Fair value	Gross Unrealized Losses	Fair value	Gross Unrealized Losses
Government agency securities	$ 18,519	$ (1)	$ 18,519	$ (1)
Total	$ 18,519	$ (1)	$ 18,519	$ (1)

	December 31, 2011			
	Less than 12 months		Total	
	Fair value	Gross Unrealized Losses	Fair value	Gross Unrealized Losses
Government agency securities	$ 20,497	$ (6)	$ 20,497	$ (6)
FDIC guaranteed corporate debt	8,033	(7)	8,033	(7)
Treasury bills	5,024	(1)	5,024	(1)
Total	$ 33,554	$ (14)	$ 33,554	$ (14)

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 tables 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 September 30, 2012 and December 31, 2011 were temporary in nature and therefore did not recognize any impairment. For investments that were in an unrealized loss position, we held the securities through maturity.

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Contractual maturities of available-for-sale debt securities at September 30, 2012, are as follows (*in thousands*):

		Estimated Fair Value
Due in one year or less	$	107,269
Due in 1 2 years		78,423
Total investments in debt securities	$	185,692

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

Restricted Cash

As of September 30, 2012 and December 31, 2011, restricted cash consisted of $0.9 million and $0.6 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 September 30, 2012 and December 31, 2011.

Inventories

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

		September 30, 2012		December 31, 2011
Materials	$	44,475	$	57,169
Work in process		23,780		20,118
Finished goods		6,105		36,147
	$	74,360	$	113,434

Cost Method Investment

During the three months ended September 30, 2012, we completed an additional investment in a rapidly developing organic light emitting diode (OLED) equipment company (the Investment). Veeco has invested in this company s Round D funding extension totaling $10.3 million, resulting in an 15.3% ownership of the preferred shares, and 12.0% ownership of the company. Since we do not exercise 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 as of September 30, 2012 and December 31, 2011. The total recorded investment as of September 30, 2012 and December 31, 2011 is $14.5 million and $4.2 million, respectively. In 2013, we invested an additional $1.6 million in the Investment.

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 expense 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*):

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	September 30, 2012	September 30, 2011
Balance as of the beginning of period	$ 8,731	$ 8,266
Warranties issued during the period	2,486	5,988
Settlements made during the period	(6,389)	(6,523)
Changes in estimate during the period	1,418	1,259
Balance as of the end of period	$ 6,246	$ 8,990

In the current year s presentation we no longer include certain accrued installation costs in the accrued warranty balance; therefore, in order to conform the balance to current year presentation, we have reclassified $1.047 million and $0.972 million in 2012 and 2011, respectively, of the beginning balance of accrued warranty to accrued installation which, along with accrued warranty, is also a component of accrued expenses and other current liabilities.

Note 5 Segment Information

We have four identified reporting units that we aggregate into two reportable segments: the VIBE and Mechanical reporting units which are reported in our Data Storage segment; and the MOCVD and MBE reporting units are reported in our LED and Solar segment. We manage the business, review operating results and assess performance, as well as allocate resources, based upon our reporting units that reflect the market focus of each business. The LED & Solar segment consists of metal organic chemical vapor deposition (MOCVD) systems, molecular beam epitaxy (MBE) systems, thermal deposition sources and other types of deposition systems. These systems are primarily sold to customers in the LED and solar industries, as well as to scientific research customers. This segment has product development and marketing sites in Somerset, New Jersey, Poughkeepsie, New York, and St. Paul, Minnesota. During 2011 we discontinued our CIGS solar systems business, located in Tewksbury, Massachusetts and Clifton Park, New York. The Data Storage segment consists of the ion beam etch, ion beam deposition, diamond-like carbon, physical vapor deposition, and dicing and slicing products sold primarily to customers in the data storage industry. This segment has product development and marketing sites in Plainview, New York, Ft. Collins, Colorado and Camarillo, California.

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, equity-based compensation expense and loss on extinguishment of debt. The accounting policies of the reportable segments are the same as those described in the summary of critical accounting policies.

The following tables present certain data pertaining to our reportable product segments and a reconciliation of segment profit (loss) to income (loss) from continuing operations before income taxes for the three and nine months ended September 30, 2012 and 2011, respectively, and goodwill and total assets as of September 30, 2012 and December 31, 2011 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate	Total
Three months ended September 30, 2012				
Net sales	$ 98,905	$ 33,810	$	$ 132,715
Segment profit	$ 9,461	$ 4,278	$ 480	$ 14,219
Interest, net			176	176

Amortization		(1,154)		(323)				(1,477)
Equity-based compensation		(1,914)		(763)		(588)		(3,265)
Restructuring		(660)		(1,296)		(58)		(2,014)
Income (loss) from continuing operations before income taxes	$	5,733	$	1,896	$	10	$	7,639
Three months ended September 30, 2011								
Net sales	$	233,864	$	34,095	$		$	267,959
Segment profit (loss)	$	72,819	$	7,877	$	(2,581)	$	78,115
Interest, net						244		244
Amortization		(924)		(353)				(1,277)
Equity-based compensation		(996)		(339)		(1,620)		(2,955)
Income (loss) from continuing operations before income taxes	$	70,899	$	7,185	$	(3,957)	$	74,127

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	LED & Solar	Data Storage	Unallocated Corporate	Total
Nine months ended September 30, 2012				
Net sales	$ 281,257	$ 127,914	$	$ 409,171
Segment profit (loss)	$ 36,534	$ 25,367	$ (2,009)	$ 59,892
Interest, net			708	708
Amortization	(2,878)	(999)		(3,877)
Equity-based compensation	(4,016)	(1,614)	(4,779)	(10,409)
Restructuring	(718)	(1,301)	(58)	(2,077)
Income (loss) from continuing operations before income taxes	$ 28,922	$ 21,453	$ (6,138)	$ 44,237
Nine months ended September 30, 2011				
Net sales	$ 667,697	$ 119,753	$	$ 787,450
Segment profit (loss)	$ 232,848	$ 33,158	$ (8,953)	$ 257,053
Interest, net			(1,142)	(1,142)
Amortization	(2,364)	(1,072)	(83)	(3,519)
Equity-based compensation	(2,567)	(999)	(5,906)	(9,472)
Loss on extinguishment of debt			(3,349)	(3,349)
Income (loss) from continuing operations before income taxes	$ 227,917	$ 31,087	$ (19,433)	$ 239,571

	LED & Solar	Data Storage	Unallocated Corporate	Total
As of September 30, 2012				
Goodwill	$ 55,828	$	$	$ 55,828
Total assets	$ 280,220	$ 50,397	$ 623,938	$ 954,555
As of December 31, 2011				
Goodwill	$ 55,828	$	$	$ 55,828
Total assets	$ 319,457	$ 57,203	$ 559,403	$ 936,063

As of September 30, 2012 and December 31, 2011 corporate total assets were comprised principally of cash and cash equivalents and short-term investments.

Note 6 Debt

Mortgage Payable

We have a mortgage payable, with approximately $2.5 million outstanding as of September 30, 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 September 30, 2012 was approximately $2.7 million.

Convertible Notes

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

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

Note 7 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:

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- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

- Level 2 inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3 inputs are unobservable and are typically based on our own assumptions, including situations where there is little, if any, market activity.

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

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

The major categories of assets and liabilities measured on a recurring basis, at fair value, as of September 30, 2012 and December 31, 2011, are as follows (*in millions*):

	September 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Treasury bills	$ 246.3	$	$	$ 246.3
Government agency securities		117.9		117.9
FDIC guaranteed corporate debt		28.2		28.2
Total	$ 246.3	$ 146.1	$	$ 392.4

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Treasury bills	$ 90.2	$	$	$ 90.2
FDIC guaranteed corporate debt		114.8		114.8
Government agency securities		169.8		169.8
Money market instruments		0.2		0.2
Total	$ 90.2	$ 284.8	$	$ 375.0

The classification in the fair value table as of December 31, 2011 has been revised to conform to current period classifications due to an immaterial error related to previously disclosed fair value hierarchy tables.

Consistent with Level 1 measurement principles, Treasury bills are priced using active market prices of identical securities. Consistent with Level 2 measurement principles, Federal Deposit Insurance Corporation (FDIC) guaranteed corporate debt and Government agency securities are priced with matrix pricing.

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 as cost, which approximates fair value. Accordingly, no gains or losses (realized/unrealized) have been recorded 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.

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.

All investments valued using quoted prices in active markets to determine fair value are classified as Level 1, while those valued with matrix pricing are classified as Level 2.

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Note 8 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. 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 aggregate foreign currency exchange gain included in determining the condensed consolidated results of operations was minimal during the three months ended September 30, 2012, the aggregate foreign currency exchange loss included in determining the condensed consolidated results of operations was approximately $0.3 million during the nine months ended September 30, 2012 and $0.2 million and $0.7 million during the three and nine months ended September 30, 2011, respectively. Included in the aggregate foreign currency exchange gains were minimal losses related to forward contracts during the three months ended September 30, 2012, included in the aggregate foreign currency exchange losses were losses (gains) related to forward contracts of $0.1 million during the nine months ended September 30, 2012, and $0.3 million and ($0.5) million during the three and nine months ended September 30, 2011 respectively. These amounts were recognized and are included in Other, net in the accompanying Condensed Consolidated Statements of Income.

As of September 30, 2012 there was a minimal loss related to forward contracts, which is included in accrued expenses and other current liabilities. As of December 31, 2011 there were no outstanding contracts or settlements. As of September 30, 2012, the monthly forward contracts outstanding with a notional amount of $3.7 million settled in October 2012.

The weighted average notional amount of derivative contracts outstanding during the three and nine months ended September 30, 2012 was approximately $2.2 million and $2.4 million, respectively.

Note 9 Business Combination

On April 4, 2011, we purchased a privately-held company, which supplies certain components to our business, for $28.3 million in cash. As a result of this purchase, we acquired $16.4 million of definite-lived intangibles, of which $13.6 million related to core technology, and $14.7 million of goodwill. The financial results of this acquisition are included in our LED & Solar segment as of the acquisition date.

Note 10 Commitments, Contingencies and Other Matters

Restructuring and Other Charges

During the three months ended September 30, 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 $2.0 million.

Restructuring for the three and nine months ended September 30, 2012 is as follows (*in thousands*):

	Three months ended September 30, 2012	Nine months ended September 30, 2012
Personnel severance and related costs	$ 1,642	$ 1,705
Equity compensation and related costs	220	220
Other associated costs	152	152
	$ 2,014	$ 2,077

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Personnel Severance and Related Costs

During the three and nine months ended September 30, 2012, we recorded $1.6 million and 1.7 million, respectively, in personnel severance and related costs resulting from a headcount reduction of approximately 23 employees. This reduction in workforce included executives, management, administration, sales and service personnel and manufacturing employees companywide.

Equity Compensation Costs

During the three months ended September 30, 2012, we recorded $0.2 million in equity compensation costs resulting from the acceleration and modification of certain awards associated with the realignment of our senior management team.

Restructuring Liability

The following is a reconciliation of the restructuring liability through September 30, 2012 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate	Total
Short-term liability				
Balance as of January 1, 2012	$ 534	$ 128	$ 294	$ 956
2012 Restructuring	561	983	56	1,600
Short-term/long-term reclassification				
2012 Cash payments	(546)	(137)	(273)	(956)
Balance as of September 30, 2012	$ 549	$ 974	$ 77	$ 1,600

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, 2011 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate	Total
Short-term liability				
Balance as of January 1, 2011	$	$ 178	$ 536	$ 714
2011 Restructuring	672	51	311	1,034
Short-term/long-term reclassification		58		58
2011 Cash payments	(138)	(159)	(553)	(850)
Balance as of December 31, 2011	$ 534	$ 128	$ 294	$ 956

Long-term liability				
Balance as of January 1, 2011	$	$ 58	$	$ 58
Short-term/long-term reclassification		(58)		(58)
Balance as of December 31, 2011	$	$	$	$

Note 11 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 on Form 10-Q, 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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Veeco and certain other parties were named as defendants in a lawsuit filed on April 25, 2013 in the Superior Court of California, County of Sonoma. The plaintiff in the lawsuit, Patrick Colbus, seeks unspecified damages and asserts claims that he suffered burns and other injuries while he was cleaning a molecular beam epitaxy system alleged to have been manufactured by Veeco. The lawsuit alleges, among other things, that the molecular beam epitaxy system was defective and that Veeco failed to adequately warn of the potential risks of the system. Veeco believes this lawsuit is without merit and intends to defend vigorously against the claims and Veeco maintains insurance which may apply to this matter. Because the Company believes that this potential loss is not probable or estimable, it has not recorded any reserves related to this legal matter.

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 (otherwise known as 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.

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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 other
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 Inc was organized as a Delaware corporation in 1989.

Highlights of the Third Quarter of 2012

- Revenue was $132.7 million, a 50.5% decrease from the third quarter of 2011.
- Bookings were $83.7 million, a 37.1% decrease from the third quarter of 2011.

- Net income from continuing operations was $7.7 million, or $0.20 per share, compared to $52.6 million, or $1.31 per share, in the third quarter of 2011.

- Gross margins were 37.6%, compared to 46.6% in the third quarter of 2011.

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.

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Results of Operations:

Out of period adjustment

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 this or any other prior periods. During the course of our review, we identified net cumulative errors which overstated cumulative net income from continuing operations through December 31, 2011 by $0.6 million and net cumulative errors that understated net income from continuing operations in the six month period ended June 30, 2012 by $1.1 million. As a result, in the third quarter of 2012, we recorded adjustments to correct all prior periods resulting in an increase in income from continuing operations of $0.5 million.

Three Months Ended September 30, 2012 and 2011

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 2012 interim quarter ends are April 1, July 1 and September 30. The 2011 interim quarter ends were April 3, July 3 and October 2. For ease of reference, we report these interim quarter ends as March 31, June 30 and September 30 in our interim condensed consolidated financial statements.

The following table shows our Condensed Consolidated Statements of Income, percentages of sales, and comparisons between the three months ended September 30, 2012 and 2011 (*dollars in thousands*):

	Three months ended September 30,				Dollar and Percentage Change Period to Period	
	2012		2011			
Net sales	$ 132,715	100.0%	$ 267,959	100.0%	$ (135,244)	(50.5)%
Cost of sales	82,831	62.4	143,025	53.4	(60,194)	(42.1)
Gross profit	49,884	37.6	124,934	46.6	(75,050)	(60.1)
Operating expenses (income):						
Selling, general and administrative	13,892	10.5	23,569	8.8	(9,677)	(41.1)
Research and development	25,775	19.4	26,404	9.9	(629)	(2.4)
Amortization	1,477	1.1	1,277	0.5	200	15.7
Restructuring	2,014	1.5			2,014	*
Other, net	(737)	(0.6)	(199)	(0.1)	(538)	270.4
Total operating expenses	42,421	32.0	51,051	19.1	(8,630)	(16.9)
Operating income	7,463	5.6	73,883	27.6	(66,420)	(89.9)
Interest income, net	176	0.1	244	0.1	(68)	(27.9)
Income from continuing operations before income taxes	7,639	5.7	74,127	27.7	(66,488)	(89.7)

Income tax (benefit) provision		(59)			21,510	8.0		(21,569)	*
Income from continuing operations		7,698	5.7		52,617	19.6		(44,919)	(85.4)
Discontinued operations:									
Income (loss) from discontinued operations before income taxes		5,396	4.1		(23,839)	(8.9)		29,235	*
Income tax provision (benefit)		1,341	1.0		(7,085)	(2.6)		8,426	*
Income (loss) from discontinued operations		4,055	3.1		(16,754)	(6.3)		20,809	*
Net income	$	11,753	8.9%	$	35,863	13.4%	$	(24,110)	(67.2)%

* Not Meaningful

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Net Sales and Bookings

Net sales of $132.7 million for the three months ended September 30, 2012 were down 50.5% compared to the prior year period. The following is an analysis of net sales by segment and by region (*dollars in thousands*):

	Sales						
	Three months ended September 30,				Dollar and Percentage Change Period to Period		
	2012		2011				
Segment Analysis							
LED & Solar	$	98,905	$	233,864	$	(134,959)	(57.7)%
Data Storage		33,810		34,095		(285)	(0.8)%
Total	$	132,715	$	267,959	$	(135,244)	(50.5)%
Regional Analysis							
Americas	$	27,779	$	24,521	$	3,258	13.3%
Europe, Middle East and Africa		16,920		6,510		10,410	159.9%
Asia Pacific		88,016		236,928		(148,912)	(62.9)%
Total	$	132,715	$	267,959	$	(135,244)	(50.5)%

By segment, LED & Solar sales decreased 57.7% in 2012 primarily due to a 69.5% decrease in MOCVD reactor shipments from the prior year period as a result of industry overcapacity following over two years of strong customer investments. Data Storage sales remained fairly flat in 2012 compared to 2011. LED & Solar sales represented 74.5% of total sales for the three months ended September 30, 2012, down from 87.3% in the prior year. Data Storage sales accounted for 25.5% of net sales, up from 12.7% in the prior year period. By region, net sales decreased by 62.9% in Asia Pacific (APAC), primarily due to a significant decrease in MOCVD sales in China resulting from industry overcapacity. Net sales in the Americas and Europe, Middles East and Africa (EMEA) increased 13.3% and 159.9%, respectively. We believe that there will continue to be period-to-period variations in the geographic distribution of sales.

Bookings decreased 37.1% to $83.7 million from $133.1 million in the prior year period, primarily attributable to a 39.4% decrease in LED & Solar bookings, principally driven by a decline in MOCVD bookings due to industry overcapacity. After hitting a peak in second quarter of 2011, Veeco s bookings slowed dramatically in the second half of 2011, and the slowdown has continued through 2013. Data Storage bookings decreased 25.2% as the prior year s spike in orders from hard drive customers recovering from flooding in Thailand resulted in those customers being over-invested in capacity. The industry appears to have frozen further investments as end-user hard drive demand has slowed. We continue to experience weak overall market conditions due to overcapacity in all of our businesses.

Our book-to-bill ratio for the three months ended September 30, 2012, which is calculated by dividing bookings recorded in a given time period by revenue recognized in the same time period, was 0.63 to 1. Our backlog as of September 30, 2012 was $180.8 million, compared to $332.9 million as of December 31, 2011. During the three months ended September 30, 2012, we recorded backlog adjustments of approximately $11.0 million, consisting of order cancellations of $7.3 million, as well as a $3.7 million adjustment related to orders that no longer met our booking criteria. Our backlog consists of orders for which we received a firm purchase order, a customer-confirmed shipment date within twelve months and a deposit, where required.

Gross Profit

Gross profit in dollars and gross margin for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Dollar and Percentage Change Period to Period	
Gross profit	$ 49,884	$ 124,934	$ (75,050)	(60.1)%
Gross margin	37.6%	46.6%		

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Gross margin as a percentage of net sales, for the three months ended September 30, 2012 was 37.6%, compared to 46.6% in the prior year period. A weaker than expected business environment has caused us to record an aggregate expense for slow moving items of $7.2 million for the three months ended September 30, 2012, which negatively impacted our gross margin for the same period. We anticipate that this will result in relatively lower provisions for inventory reserves over the first three quarters of 2013.

LED & Solar margins decreased to 36.1% from 46.2% primarily resulting from a significant decrease in sales volumes, lower average selling prices and a mix of lower margin products, which was partially offset by lower plant spending due to cost reductions in response to the lower volumes. We anticipate continued selling price pressure in our MOCVD business. Data Storage gross margins decreased to 42.0% from 49.8%, primarily driven by lower volume and a mix of lower margin products.

Selling, General and Administrative

Selling, general and administrative expenses for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Dollar and Percentage Change Period to Period	
Selling, general and administrative	$ 13,892	$ 23,569	$ (9,677)	(41.1)%
Percentage of sales	10.5%	8.8%		

Selling, general and administrative expenses decreased by $9.7 million or 41.1%, from the prior year period primarily due to lower commissions and bonus and profit sharing expenses from the reduced level of business in each of our segments. In addition our cost control measures put into place throughout the year resulted in lower personnel-related costs, travel and entertainment expense, professional consulting fees and other discretionary expenses. Selling, general and administrative expenses were 10.5% of net sales in the three months ended September 30, 2012 compared with 8.8% of net sales in the three months ended September 30, 2011.

Research and Development

Research and development expenses for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30, 2012	Three months ended September 30, 2011	Dollar and Percentage Change Period to Period	
Research and development	$ 25,775	$ 26,404	$ (629)	(2.4)%
Percentage of sales	19.4%	9.9%		

Research and development expense decreased $0.6 million or 2.4% from the prior year period. The Company has continued to invest in the development of products in areas of high-growth for end market opportunities in our LED & Solar segment.

Restructuring

Restructuring expenses for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30,		Dollar and Percentage Change	
	2012	2011	Period to Period	
Restructuring	$ 2,014	$	$ 2,014	*
Percentage of sales	1.5%	0.0%		

* Not Meaningful

Restructuring expense was $2.0 million for the three months ended September 30, 2012, as we took measures to improve profitability in a challenging business environment. The charge resulted from a realignment of our senior management team and consolidation of certain sales, business and administrative functions.

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Income Taxes

Income tax (benefit) provision for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30, 2012	2011	Dollar and Percentage Change Period to Period	
Income tax (benefit) provision	$ (59)	$ 21,510	$ (21,569)	*
Effective tax rate	(0.8)%	29.0%		

* Not Meaningful

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

For the three months ended September 30, 2012, the Company had an effective tax rate of (0.8%) and recorded an income tax benefit of $0.1 million from continuing operations. The effective tax rate was lower than the statutory tax rate primarily due to tax rate differences in the foreign jurisdictions in which the Company operates, an income tax benefit related to the manufacturer s deduction under IRC Section 199, and a discrete benefit relating to research and development tax credits. The reduction in the effective tax rate in 2012 compared to 2011 was primarily due to a higher portion of earnings being generated in foreign jurisdictions and the impact of the higher than estimated 2011 research and development credits recognized in 2012. The tax benefit recorded for the three months ended September 30, 2012 is primarily the result of the reduction in the estimated annual effective tax rate applied to reduced projected pre-tax earnings and the discrete benefit relating to an adjustment for the Research and Development Credit related to the filing of our 2011 Federal income tax return.

For the three months ended September 30, 2011, the Company had an effective tax rate of 29.0% and recorded a provision for income taxes of $21.5 million from continuing operations. The effective tax rate was lower than the statutory tax rate primarily due to tax rate differences in the foreign jurisdictions in which the Company operates.

Discontinued Operations

Discontinued operations results for the periods indicated were as follows (*dollars in thousands*):

	Three months ended September 30, 2012	2011	Dollar and Percentage Change Period to Period	
	$ 5,396	$ (23,839)	$ 29,235	*

Income (loss) from discontinued operations before income taxes							
Income tax provision (benefit)		1,341		(7,085)		8,426	*
Income (loss) from discontinued operations	$	4,055	$	(16,754)	$	20,809	*

* Not Meaningful

Discontinued operations represent the results of the operations of our disposed CIGS solar systems business which was discontinued on September 27, 2011 as well as our Metrology business, which was disposed of in 2010. The three months ended September 30, 2012 included a $5.4 million gain ($4.1 million net of taxes) associated with the completion of the sale of the China Assets with Bruker Corporation.

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Nine Months Ended September 30, 2012 and 2011

The following table shows our Condensed Consolidated Statements of Income, percentages of sales, and comparisons between the nine months ended September 30, 2012 and 2011 (*dollars in thousands*):

	Nine months ended September 30, 2012		2011		Dollar and Percentage Change Period to Period	
Net sales	$ 409,171	100.0%	$ 787,450	100.0%	$ (378,279)	(48.0)%
Cost of sales	232,765	56.9	396,204	50.3	(163,439)	(41.3)
Gross profit	176,406	43.1	391,246	49.7	(214,840)	(54.9)
Operating expenses (income):						
Selling, general and administrative	54,558	13.3	73,966	9.4	(19,408)	(26.2)
Research and development	72,991	17.8	69,927	8.9	3,064	4.4
Amortization	3,877	0.9	3,519	0.4	358	10.2
Restructuring	2,077	0.5		0.0	2,077	*
Other, net	(626)	(0.2)	(228)	(0.0)	(398)	174.6
Total operating expenses	132,877	32.5	147,184	18.7	(14,307)	(9.7)
Operating income	43,529	10.6	244,062	31.0	(200,533)	(82.2)
Interest income (expense), net	708	0.2	(1,142)	(0.1)	1,850	*
Loss on extinguishment of debt		0.0	(3,349)	(0.4)	3,349	*
Income from continuing operations before income taxes	44,237	10.8	239,571	30.4	(195,334)	(81.5)
Income tax provision	9,066	2.2	72,657	9.2	(63,591)	(87.5)
Income from continuing operations	35,171	8.6	166,914	21.2	(131,743)	(78.9)
Discontinued operations:						
Income (loss) from discontinued operations before income taxes	6,534	1.6	(91,574)	(11.6)	98,108	*
Income tax provision (benefit)	1,722	0.4	(32,371)	(4.1)	34,093	*
Income (loss) from discontinued operations	4,812	1.2	(59,203)	(7.5)	64,015	*
Net income	$ 39,983	9.8%	$ 107,711	13.7%	$ (67,728)	(62.9)%

* Not Meaningful

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Net Sales and Bookings

Net sales of $409.2 million for the nine months ended September 30, 2012 were down 48.0% compared to the prior year period. The following is an analysis of net sales by segment and by region (*dollars in thousands*):

	Sales		
	For the nine months ended September 30,		Dollar and Percentage Change Period to Period
	2012	2011	
Segment Analysis			
LED & Solar	$ 281,257	$	

		Purchased		
		Average	Announced	Under the
	of Shares	Price	Plans	Plans
		Paid per		or
Period	Purchased	Share	or Programs	Programs
January 1, 2007 through January 31, 2007	-	-	-	-
February 1, 2007 through February 28, 2007	6,800	$ 14.81	108,646	41,354
March 1, 2007 through March 31, 2007	-	-	-	-
Total	6,800	$ 14.81	108,646	41,354

Item 3. Defaults upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Number	Description
31.1	Certification of Donald L. Kovach pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Candace A. Leatham pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUSSEX BANCORP

By: /s/ Candace A. Leatham
CANDACE A. LEATHAM
Executive Vice President and
Chief Financial Officer
Date: May 15, 2007