VEECO INSTRUMENTS INC
Form 10-Q
April 29, 2011
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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 March 31, 2011

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	(I.R.S. Employer
Incorporation or Organization)	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 x No o

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of 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

40,739,182 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on April 28, 2011.

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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:

- Our failure to successfully manage our outsourcing activities or failure of our outsourcing partners to perform as anticipated could adversely affect our statements of income and our ability to realize the benefits of the increased MOCVD order volume;

- The reduction or elimination of foreign government subsidies and economic incentives may adversely affect the future order rate for our MOCVD equipment;

- Manufacturing interruptions or delays could affect our ability to meet customer demand, while the failure to estimate customer demand accurately could result in excess or obsolete inventory and/or liabilities to our suppliers for products no longer needed;

- We rely on a limited number of suppliers, some of whom are our sole source for particular components;

- Our backlog is subject to customer cancellation or modification and such cancellation could result in decreased sales and increased provisions for excess and obsolete inventory and/or liabilities to our suppliers for products no longer needed;

- Our sales to HB LED and data storage manufacturers are highly dependent on these manufacturers sales for consumer electronics applications, which can experience significant volatility due to seasonal and other factors. This could materially adversely impact our future statements of income;

- Negative worldwide economic conditions could result in a decrease in our net sales and an increase in our operating costs, which could adversely affect our business and operating results;

- We are exposed to the risks of operating a global business, including the need to obtain export licenses for certain of our shipments and political risks in the countries we operate;

- We are exposed to risks associated with our entrance into the emerging solar industry;
- The timing of our orders, shipments, and revenue recognition may cause our quarterly operating results to fluctuate significantly;
- We operate in industries characterized by rapid technological change;
- We face significant competition;
- We depend on a limited number of customers that operate in highly concentrated industries;
- The cyclicality 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 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;
- We may not receive the escrowed proceeds from the sale of our Metrology business;
- Changes in accounting pronouncements or taxation rules or practices may adversely affect our financial results;
- We are subject to the internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act;
- We are subject to risks of non-compliance with environmental, health and safety regulations;
- We have significant operations in locations which could be materially and adversely impacted in the event of a natural disaster or other significant disruption;
- We have adopted certain measures that may have anti-takeover effects which may make an acquisition of our Company by another company more difficult; and
- The matters set forth in this Report generally, including the risk factors set forth in Part 2. Item 1A. Risk Factors.

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 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*.

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.

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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)

	Three months ended March 31,	
	2011	**2010**
Net sales	$ 254,676	$ 134,750
Cost of sales	125,344	78,010
Gross profit	129,332	56,740
Operating expenses (income):		
Selling, general and administrative	23,933	17,726
Research and development	24,582	12,956
Amortization	1,135	1,237
Restructuring		(179)
Other, net	13	(175)
Total operating expenses	49,663	31,565
Operating income	79,669	25,175
Interest expense, net	1,299	1,783
Loss on extinguishment of debt	304	
Income from continuing operations before income taxes	78,066	23,392
Income tax provision	24,983	567
Income from continuing operations	53,083	22,825
Discontinued operations:		
(Loss) income from discontinued operations	(498)	3,962
Income tax (benefit) provision	(57)	743
(Loss) income from discontinued operations	(441)	3,219
Net income	$ 52,642	$ 26,044
Income (loss) per common share:		
Basic:		
Continuing operations	$ 1.33	$ 0.59
Discontinued operations	(0.01)	0.08
Income	$ 1.32	$ 0.67
Diluted:		
Continuing operations	$ 1.25	$ 0.54
Discontinued operations	(0.01)	0.08
Income	$ 1.24	$ 0.62
Weighted average shares outstanding:		
Basic	39,842	38,784
Diluted	42,531	42,269

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Net income	$ 52,642	$ 26,044
Other comprehensive income (loss), net of tax		
Foreign currency translation	471	(673)
Unrealized gain on available-for-sale securities	26	
Comprehensive income	$ 53,139	$ 25,371

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)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 276,837	$ 245,132
Short-term investments	426,025	394,180
Restricted cash	76,117	76,115
Accounts receivable, net	94,041	150,528
Inventories	121,342	108,487
Prepaid expenses and other current assets	31,676	34,328
Deferred income taxes	5,772	13,803
Total current assets	1,031,810	1,022,573
Property, plant and equipment at cost, net	48,981	42,320
Goodwill	52,003	52,003
Deferred income taxes	9,403	9,403
Intangible assets, net	15,740	16,893
Other assets	5,074	4,842
Total assets	$ 1,163,011	$ 1,148,034
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 38,678	$ 32,220
Accrued expenses and other current liabilities	171,275	183,010
Deferred profit	4,518	4,109
Income taxes payable	21,347	56,369
Liabilities of discontinued segment held for sale	5,359	5,359
Current portion of long-term debt	94,973	101,367
Total current liabilities	336,150	382,434
Long-term debt	2,594	2,654
Other liabilities	392	434
Total equity	823,875	762,512
Total liabilities and equity	$ 1,163,011	$ 1,148,034

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)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Operating activities		
Net income	$ 52,642	$ 26,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,266	3,274
Amortization of debt discount	769	741
Non-cash equity-based compensation	3,098	1,866
Loss on extinguishment of debt	304	
Deferred income taxes	7,988	152
Excess tax benefits from stock option exercises	(2,188)	
Other, net	180	1,869
Changes in operating assets and liabilities:		
Accounts receivable	55,888	1,492
Inventories	(12,843)	(6,350)
Accounts payable	6,478	4,321
Accrued expenses, deferred profit and other current liabilities	(11,142)	14,777
Income taxes payable	(32,743)	514
Other, net	3,190	(3,103)
Discontinued operations		(3,844)
Net cash provided by operating activities	74,887	41,753
Investing activities		
Capital expenditures	(9,402)	(1,010)
Proceeds from the maturity of CDARS		40,025
Proceeds from sales of short-term investments	122,148	
Payments for purchases of short-term investments	(154,339)	(60,500)
Other	1	(99)
Net cash used in investing activities	(41,592)	(21,584)
Financing activities		
Proceeds from stock option exercises	2,951	26,968
Restricted stock tax withholdings	(13)	(456)
Excess tax benefits from stock option exercises	2,188	
Repayments of long-term debt	(7,454)	(52)
Other	(54)	
Net cash (used in) provided by financing activities	(2,382)	26,460
Effect of exchange rate changes on cash and cash equivalents	792	(1,123)
Net increase in cash and cash equivalents	31,705	45,506
Cash and cash equivalents at beginning of year	245,132	148,500
Cash and cash equivalents at end of year	$ 276,837	$ 194,006
Non-cash investing and financing activities		
Transfers from property, plant and equipment to inventory	$	$ 1,102
Transfers from inventory to property, plant and equipment		850
Sale of property, plant and equipment with note receivable		140

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

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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 months ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

Income Per Common Share

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

	Three months ended March 31,	
	2011	**2010**
Basic weighted average shares outstanding	39,842	38,784
Dilutive effect of stock options and restricted stock	1,149	2,533
Dilutive effect of convertible notes	1,540	952
Diluted weighted average shares outstanding	42,531	42,269

Basic income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding during the period. For the three months ended March 31, 2011 and 2010, no shares were excluded from the computation of diluted weighted average shares outstanding.

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 months ended March 31, 2011 and 2010, had a dilutive effect of 1.5 million and 1.0 million common equivalent shares, respectively. 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 March 31, 2011 was approximately 5.0 million. See Note 6 for further details on our debt.

Derivative Financial Instruments

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

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

The aggregate foreign currency exchange loss (gain) included in the accompanying Condensed Consolidated Statements of Income was approximately $0.3 million and $(0.1) million during the three months ended March 31, 2011 and 2010, respectively. Included in the aggregate foreign currency exchange loss (gain) were gains related to forward contracts of $0.5 million during the three months ended March 31, 2011. Minimal gains related to forward contracts were included in the aggregate foreign currency exchange loss (gain) during the three months ended March 31, 2010. These amounts were recognized and are included in Other, net in the accompanying Condensed Consolidated Statements of Income.

As of March 31, 2011, approximately $0.2 million of gains related to forward contracts were included in prepaid expenses and other current assets and were subsequently received in April 2011. As of December 31, 2010, approximately $0.3 million of gains related to forward contracts were included in prepaid expenses and other current assets which were subsequently received in January 2011. Monthly forward contracts with a notional amount of $11.7 million, entered into in March 2011 for April 2011, will be settled in April 2011.

The weighted average notional amount of derivative contracts outstanding during the three months ended March 31, 2011 were approximately $19.8 million.

Note 2 Discontinued Operations

On August 15, 2010, we signed a definitive agreement to sell our Metrology business to Bruker Corporation (Bruker) comprising our entire Metrology reporting segment for $229.4 million. Accordingly, Metrology s operating results were accounted for as discontinued operations and the related assets and liabilities were classified as held for sale. The sales transaction closed on October 7, 2010, except for assets located in China due to local restrictions. Total proceeds, which included a working capital adjustment of $1 million, totaled $230.4 million of which $7.2 million relates to the assets in China. The Company recorded a liability to defer the gain of $5.4 million on disposal related to the assets in China. As part of our agreement with Bruker, $22.9 million of proceeds is held in escrow and is restricted from use for one year from the closing date of the transaction to secure potential specified losses, if any, arising out of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents.

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Net sales	$	$ 28,481
Cost of sales		14,872
Gross profit		13,609
Total operating expenses	498	9,647
Operating (loss) income	$ (498)	$ 3,962

Net (loss) income from discontinued operations, net of tax	$	(441)	$	3,219

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

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 Income for the three months ended March 31, 2011 and 2010 (*in thousands*):

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	Three months ended March 31, 2011	Three months ended March 31, 2010
Equity-based compensation expense	$ 3,098	$ 1,866

As a result of the sale of our Metrology segment to Bruker, equity-based compensation expense related to Metrology employees totaling $0.3 million has been classified as discontinued operations in determining the Condensed Consolidated Statements of Income for the three months ended March 31, 2010.

As of March 31, 2011, the total unrecognized compensation costs related to nonvested stock and stock option awards was $7.8 million and $12.8 million, respectively. The related weighted average period over which we expect that such unrecognized compensation costs will be recognized is approximately 2.5 years for nonvested stock awards and 1.9 years for option awards.

Stock Option and Restricted Stock Activity

A summary of our restricted stock awards including restricted stock units for the three months ended March 31, 2011, is presented below:

	Shares (000 s)	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2010	616	$ 19.06
Granted	6	44.82
Vested	(1)	4.20
Forfeited (including cancelled awards)	(2)	26.20
Nonvested at March 31, 2011	619	$ 19.28

A summary of our stock option awards for the three months ended March 31, 2011, is presented below:

	Shares (000s)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000s)	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2010	2,569	$ 19.71		
Granted	16	44.02		
Exercised	(211)	13.85		
Forfeited (including cancelled options)	(24)	32.61		
Outstanding at March 31, 2011	2,350	$ 20.28	$ 70,815	5.7
Options exercisable at March 31, 2011	573	$ 17.40	$ 18,920	3.6

Treasury Stock

On August 24, 2010, our Board of Directors authorized the repurchase of up to $200 million of our common stock until August 26, 2011. Repurchases are expected to be made from time to time on the open market in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions, SEC regulations, and other factors. The repurchases will be funded using the Company s available cash balances and cash generated from operations. The program does not obligate the Company to acquire any particular amount of common stock and may be modified or suspended at any time at the Company s discretion. The Company had no share repurchase activity for the three months ended March 31, 2011 and 2010. At March 31, 2011, there remained $161.9 million of authorization for future repurchases.

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Note 4 Balance Sheet Information

Short-term Investments

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

	March 31, 2011			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Commercial paper	$ 95,584	$ 61	$	$ 95,645
FDIC insured corporate bonds	105,348	21		105,369
Treasury bills	224,970	41		225,011
Total available-for-sale securities	$ 425,902	$ 123	$	$ 426,025

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

During the three months ended March 31, 2011, available-for-sale securities were sold for total proceeds of $122.1 million. The gross realized gains on these sales were minimal for the three months ended March 31, 2011. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding gains on available-for-sale securities of less than $0.1 million for the three months ended March 31, 2011, have been included in accumulated other comprehensive income. During the three months ended March 31, 2010, available-for-sale securities matured for total proceeds of $40.0 million. The gross realized gains on these sales were minimal for the three months ended March 31, 2010. There were no unrealized holding gains on available-for-sale securities for the three months ended March 31, 2010.

Contractual maturities of available-for-sale debt securities at March 31, 2011, are as follows (*in thousands*):

	Estimated Fair Value	
Due in one year or less	$	276,642
Due in 1 2 years		149,383
Total investments in debt securities	$	426,025

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 March 31, 2011, we had $76.1 million of restricted cash consisting of $22.9 million that relates to the proceeds received from the sale of our Metrology segment. This cash is held in escrow and is restricted from use for one year from the closing date of the transaction to secure potential losses, if any, arising out of breaches of representations, warranties and covenants we made in the stock purchase agreement and related documents. Additionally, we had restricted cash consisting of $53.2 million which serves as collateral for bank guarantees that

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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 March 31, 2011 and December 31, 2010.

Inventories

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

	March 31, 2011	December 31, 2010
Raw materials	$ 55,584	$ 49,953
Work in process	50,268	33,181
Finished goods	15,490	25,353
	$ 121,342	$ 108,487

Accrued Warranty

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

	Three months ended March 31,	
	2011	2010
Balance as of the beginning of period	$ 9,238	$ 6,675
Warranties issued during the period	3,014	1,446
Settlements made during the period	(2,121)	(1,382)
Balance as of the end of period	$ 10,131	$ 6,739

Note 5 Segment Information

We manage the business, review operating results and assess performance, as well as allocate resources, based upon two separate reporting segments that reflect the market focus of each business. The Light Emitting Diode (LED) & Solar segment consists of metal organic chemical vapor deposition (MOCVD) systems, molecular beam epitaxy (MBE) systems, Copper, Indium, Gallium, Selenide (CIGS) deposition systems and thermal deposition sources. These systems are primarily sold to customers in the high-brightness LED (HB LED) and solar industries, as well as to scientific research customers. This segment has manufacturing, product development and marketing sites in Somerset, New Jersey, St. Paul, Minnesota and Lowell, Massachusetts and has a product development site in 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 manufacturing, product development and marketing sites in Plainview, New York, Camarillo, California and Ft. Collins, Colorado.

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

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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 months ended March 31, 2011 and 2010, respectively, and goodwill and total assets as of March 31, 2011 and December 31, 2010 (*in thousands*):

	LED & Solar	Data Storage	Unallocated Corporate Amount	Total
Three months ended March 31, 2011				
Net sales	$ 214,698	$ 39,978	$	$ 254,676
Segment profit (loss)	$ 73,963	$ 12,231	$ (2,292)	$ 83,902
Interest, net			1,299	1,299
Amortization	714	363	58	1,135
Equity-based compensation	977	308	1,813	3,098
Loss on extinguishment of debt			304	304
Income (loss) from continuing operations before income taxes	$ 72,272	$ 11,560	$ (5,766)	$ 78,066
Three months ended March 31, 2010				
Net sales	$ 111,505	$ 23,245	$	$ 134,750
Segment profit (loss)	$ 28,358	$ 2,877	$ (3,136)	$ 28,099
Interest, net			1,783	1,783
Amortization	796	383	58	1,237
Equity-based compensation	467	215	1,184	1,866
Restructuring		(179)		(179)
Income (loss) from continuing operations before income taxes	$ 27,095	$ 2,458	$ (6,161)	$ 23,392

	LED & Solar	Data Storage	Unallocated Corporate Amount	Total
As of March 31, 2011				
Goodwill	$ 52,003	$	$	$ 52,003
Total assets	$ 274,678	$ 65,350	$ 822,983	$ 1,163,011
As of December 31, 2010				
Goodwill	$ 52,003	$	$	$ 52,003
Total assets	$ 323,096	$ 61,691	$ 763,247	$ 1,148,034

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

Note 6 Debt

Convertible Notes

Our convertible notes are initially convertible into 36.7277 shares of common stock per $1,000 principal amount of notes (equivalent to a conversion price of $27.23 per share or a premium of 38% over the closing market price for Veeco s common stock on April 16, 2007). On