VEECO INSTRUMENTS INC
Form 10-Q
May 05, 2014
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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, 2014

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

40,039,513 shares of common stock were outstanding as of the close of business on April 25, 2014.

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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;
- Timing of market adoption of light emitting diode (LED) technology for general lighting is uncertain;
- Our failure to successfully manage our outsourcing activities or failure of our outsourcing partners to perform as anticipated could adversely affect our results of operations and our ability to adapt to fluctuating order volumes;
- The further reduction or elimination of foreign government subsidies and economic incentives may adversely affect the future order rate for our metal organic chemical vapor deposition (MOCVD) equipment;
- Our operating results have been, and may continue to be, adversely affected by tightening credit markets;
- Our backlog is subject to customer cancellation or modification and such cancellation could result in decreased sales and increased provisions for excess and obsolete inventory and/or liabilities to our suppliers for products no longer needed;
- Our failure to estimate customer demand accurately could result in excess or obsolete inventory and/or liabilities to our suppliers for products no longer needed, while manufacturing interruptions or delays could affect our ability to meet customer demand;
- The 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;
- We may be exposed to liabilities under the Foreign Corrupt Practices Act and any determination that we violated these or similar laws could have a material adverse effect on our business;
- The timing of our orders, shipments, and revenue recognition may cause our quarterly operating results to fluctuate significantly;
- We operate in industries characterized by rapid technological change;

- We face significant competition;
- We depend on a limited number of customers, located primarily in a limited number of regions, which operate in highly concentrated industries;
- Our sales cycle is long and unpredictable;
- 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;
- The price of our common shares may be volatile and could decline significantly;
- Our inability to attract, retain, and motivate key employees could have a material adverse effect on our business;
- We are subject to foreign currency exchange risks;
- The enforcement and protection of our intellectual property rights may be expensive and could divert our limited resources;
- We may be subject to claims of intellectual property infringement by others;
- If we are subject to cyber-attacks we could incur substantial costs and, if such attacks are successful, could result in significant liabilities, reputational harm and disruption of our operations;
- Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses;
- We may be required to take additional impairment charges for goodwill and indefinite-lived intangible assets or definite-lived intangible and long-lived assets;

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- Changes in accounting pronouncements or taxation rules or practices may adversely affect our financial results;
- We are subject to risks of non-compliance with environmental, health and safety regulations;
- We have significant operations in locations which could be materially and adversely impacted in the event of a natural disaster or other significant disruption;
- We have adopted certain measures that may have anti-takeover effects which may make an acquisition of our Company by another company more difficult;
- New regulations related to conflict minerals will force us to incur additional expenses, may make our supply chain more complex, and may result in damage to our relationships with customers; and
- The matters set forth in this Report generally, including the risk factors set forth in Part II. Item 1A. Risk Factors.

Consequently, such forward looking statements should be regarded solely as the current plans, estimates and beliefs of Veeco Instruments Inc. (together with its consolidated subsidiaries, Veeco , the Company , we , us , and our , unless the context indicates otherwise). The Company does not undertake any obligation to update any forward looking statements to reflect future events or circumstances after the date of such statements.

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*.

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 Operations

(In thousands, except per share data)
(Unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Net sales	$ 90,841	$ 61,781
Cost of sales	57,064	39,229
Gross profit	33,777	22,552
Operating expenses:		
Selling, general and administrative	21,667	19,648
Research and development	19,768	20,737
Amortization	2,903	856
Restructuring	392	531
Total operating expenses	44,730	41,772
Other operating, net	(212)	404
Changes in contingent consideration	(29,368)	
Operating income (loss)	18,627	(19,624)
Interest income (expense), net	164	192
Income (loss) before income taxes	18,791	(19,432)
Income tax provision (benefit)	(369)	(9,361)
Net income (loss)	$ 19,160	$ (10,071)
Income (loss) per common share:		
Basic:		
Income (loss)	$ 0.49	$ (0.26)
Diluted :		
Income (loss)	$ 0.48	$ (0.26)
Weighted average shares outstanding:		
Basic	39,177	38,716
Diluted	39,937	38,716

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 Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	For the three months ended March 31, 2014		For the three months ended March 31, 2013	
Net income (loss)	$	19,160	$	(10,071)
Other comprehensive income (loss), net of tax				
Available-for-sale securities				
Unrealized gain (loss) on available-for-sale securities		50		27
Benefit (provision) for income taxes				16
Less: Reclassification adjustments for gains included in net income (loss)				(59)
Net unrealized gain (loss) on available-for-sale securities		50		(16)
Foreign currency translation				
Foreign currency translation		133		(750)
Benefit (provision) for income taxes				(13)
Net foreign currency translation		133		(763)
Other comprehensive income (loss), net of tax		183		(779)
Comprehensive income (loss)	$	19,343	$	(10,850)

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)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 214,682	$ 210,799
Short-term investments	267,402	281,538
Restricted cash	764	2,738
Accounts receivable, net	50,720	23,823
Inventories	52,073	59,726
Deferred cost of sales	2,646	724
Prepaid expenses and other current assets	26,121	22,579
Deferred income taxes	10,796	11,716
Total current assets	625,204	613,643
Property, plant and equipment at cost, net	86,912	89,139
Goodwill	91,348	91,348
Deferred income taxes	397	397
Intangible assets, net	111,814	114,716
Other assets	38,882	38,726
Total assets	$ 954,557	$ 947,969
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 28,293	$ 35,755
Accrued expenses and other current liabilities	38,065	51,084
Customer deposits and deferred revenue	41,171	34,754
Income taxes payable	5,538	6,149
Deferred income taxes	159	159
Current portion of long-term debt	296	290
Total current liabilities	113,522	128,191
Deferred income taxes	26,325	28,052
Long-term debt	1,771	1,847
Other liabilities	498	9,649
Total liabilities	142,116	167,739
Equity:		
Preferred stock, 500,000 shares authorized; no shares issued and outstanding		
Common stock; $.01 par value; authorized 120,000,000 shares; 40,015,173 and 39,666,195 shares issued and outstanding in 2014 and 2013, respectively	400	397
Additional paid-in capital	734,217	721,352
Retained earnings	73,020	53,860
Accumulated other comprehensive income	4,804	4,621
Total equity	812,441	780,230
Total liabilities and equity	$ 954,557	$ 947,969

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, 2014	Three months ended March 31, 2013
Cash Flows from Operating Activities		
Net income (loss)	$ 19,160	$ (10,071)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	5,771	3,927
Deferred income taxes	(798)	(6,215)
Non-cash equity-based compensation	4,722	2,579
Provision for bad debt	(42)	16
Gross profit from sales of lab tools	(920)	
Change in contingent consideration	(29,368)	
Excess tax benefits from equity-based compensation		(31)
Changes in operating assets and liabilities:		
Accounts receivable	(26,939)	20,004
Restricted cash	1,974	
Inventories	8,150	(8,395)
Prepaid expenses and other current assets	(3,410)	(6,501)
Accounts payable	(7,432)	6,458
Accrued expenses, customer deposits, deferred revenue and other current liabilities	11,608	1,764
Income taxes payable	(612)	(1,555)
Other, net	(265)	8,506
Net cash provided by (used in) operating activities	(18,401)	10,486
Cash Flows from Investing Activities		
Capital expenditures	(2,138)	(1,619)
Proceeds from the liquidation of short-term investments	32,030	101,236
Payments for purchases of short-term investments	(17,989)	(271,713)
Proceeds from sale of lab tools	2,340	
Other	(124)	
Net cash provided by (used in) investing activities	14,119	(172,096)
Cash Flows from Financing Activities		
Proceeds from stock option exercises	8,316	280
Restricted stock tax withholdings	(170)	(132)
Excess tax benefits from equity-based compensation		31
Repayments of long-term debt	(70)	(65)
Net cash provided by (used in) financing activities	8,076	114
Effect of exchange rate changes on cash and cash equivalents	89	60
Net increase (decrease) in cash and cash equivalents	3,883	(161,436)
Cash and cash equivalents as of beginning of period	210,799	384,557
Cash and cash equivalents as of end of period	$ 214,682	$ 223,121

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 months ended March 31, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

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 2014 interim quarter ends are March 30, June 29 and September 28. The 2013 interim quarter ends were March 31, June 30 and September 29. 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.

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 obsolescence; 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; accounting for acquisitions; 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 (Loss) 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, 2014	2013
Basic weighted average shares outstanding	39,177	38,716
Dilutive effect of stock options and restricted stock	760	
Diluted weighted average shares outstanding	39,937	38,716

Basic income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) 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, 2013, we reported a net loss applicable to common shareholders, and accordingly, the basic and diluted weighted average shares outstanding are equal because any increase to basic weighted average shares outstanding would be antidilutive. As a result, for the three months ended March 31, 2013, we excluded 0.5 million common equivalent shares that would have otherwise been dilutive.

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Additionally, not included above, were additional stock options and restricted stock outstanding that had exercise or grant prices in excess of the average market value of our common stock during the period and are therefore antidilutive. There were 1.4 million of such underlying shares for the three months ended March 31, 2014 and 2013, respectively.

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. We utilize BESP for the majority of the elements in our arrangements. 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.

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, if any, is limited to the lower of i) the amount billed that is not contingent upon acceptance provisions or ii) the value of the arrangement consideration 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

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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 or 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. During the fourth quarter of fiscal 2013, we began using a distributor for almost all of our product and service sales to customers in Japan. Title and risk and rewards of ownership of our system sales still transfer to our end-customers upon their acceptance. As such, there is no impact to our policy of recognizing revenue upon receipt of written acceptance from the end customer.

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.

Recent Accounting Pronouncements

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued ASU No. 2014-08 that changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. For public business entities, this guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists: In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists*. ASU 2013-11 requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this as of January 1, 2014 and it did not have a material impact on our consolidated financial statements.

Presentation of Financial Statements: In April 2013, the FASB issued ASU No. 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The objective of ASU 2013-07 is to clarify when an entity should apply the liquidation basis of accounting. The update provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this as of January 1, 2014 and will evaluate the materiality of its impact on our consolidated financial statements when there are any indications that liquidation is imminent.

Parent s Accounting for the Cumulative Translation Adjustment: In March 2013, the FASB issued ASU No. 2013-05, *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This new standard is intended to resolve diversity in practice regarding the release into net income of a cumulative translation adjustment (CTA) upon derecognition of a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We have adopted this as of January 1, 2014 and currently anticipate that it could have an impact on our consolidated financial statements, in the event of derecognition of a foreign subsidiary in 2014 or subsequently. We cannot currently estimate the amount of CTA to be released into income from any potential derecognition.

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Note 2 Business Combinations

On October 1, 2013 (the Acquisition Date), Veeco acquired 100% of the outstanding common shares and voting interest of Synos Technology, Inc. (Synos). The results of Synos operations have been included in the consolidated financial statements since that date. Synos is an early stage manufacturer of fast array scanning atomic layer deposition (FAST-ALD) tools for OLED and other applications. As a result of the acquisition, the Company has entered the ALD market which is complimentary to the Company s MOCVD LED offerings. The purchase price allocation is still preliminary.

As part of Veeco s acquisition agreement with Synos, there were certain contingent payments due to the selling shareholders of Synos dependent on the achievement of certain milestones. The aggregate fair value of the contingent consideration arrangement as of December 31, 2013 was $29.4 million.

We estimate the fair value of acquisition-related contingent consideration based on management s probability-weighted present value of the consideration expected to be transferred during the remainder of the earn-out period, based on the forecast related to the milestones. The fair value of the contingent consideration is reassessed by us on a quarterly basis based on a collaborative effort of our operations, finance and accounting groups using additional information as it becomes available. Any change in the fair value of an acquisition s contingent consideration liability results in a remeasurement gain or loss that is recorded in the earnings of that period. As of March 31, 2014, we determined that the agreed upon post-closing milestones were not met or are not expected to be achieved and therefore reversed the remaining $29.4 million liability of the contingent consideration and recorded it as a change in contingent consideration in the Condensed Consolidated Statement of Operations.

The post-closing milestones are divided into two contingencies. The first, tied to receipt of certain purchase orders, had an evaluation date of March 31, 2014, which, was not met and accounted for $20.2 million of the reversed liability. The second is based on achieving certain full year 2014 revenue and gross margin thresholds, which are unlikely to be met and accounted for $9.2 million of the reversed liability. As of March 31, 2014 the second contingency, with a maximum potential value of $75.0 million, remains contractually outstanding.

Note 3 Income Taxes

At the end of each interim reporting period, we estimate the effective income tax rate expected to be applicable for the full year. This estimate is used to determine the income tax provision or benefit on a year-to-date basis and may change in subsequent interim periods.

Our effective tax rate for the three months ended March 31, 2014 was a benefit of 2.0% compared to a benefit of 48.2% during the three months ended March 31, 2013. A tax benefit for each period was provided to the extent of future reversals of taxable temporary differences which relate primarily to tax deductible intangibles. Our effective tax rate for 2014 differed from the expected net operating loss carry forward benefit at the U.S. federal statutory rate of 35% primarily because of the inability to recognize such benefit due to uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable us to realize the federal carry forward benefit. The effective tax rate was also impacted because we did not provide a tax provision on the gain from the settlement of the contingent consideration related to the Synos acquisition. Our effective tax rate for 2013 differed from the U.S. federal statutory rate as a result of the jurisdictional mix of earnings in our foreign locations, an income tax benefit related to the generation of current year research and development tax credits, and legislation enacted in the first quarter of 2013 which extended the Federal Research and Development Credit for both the 2012 and 2013 tax years.

Note 4 Balance Sheet Information

Cash and Cash Equivalents

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

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Short-Term Investments

Total available-for-sale securities and gains and losses in accumulated other comprehensive income (loss) consist of the following (*in thousands*):

	March 31, 2014			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
U.S. treasuries	$ 130,889	$ 25	$	$ 130,914
Corporate debt	73,410	76	(13)	73,473
Government agency securities	59,004	11		59,015
Commercial paper	4,000			4,000
Total available-for-sale securities	$ 267,303	$ 112	$ (13)	$ 267,402

	December 31, 2013			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
U.S. treasuries	$ 130,956	$ 22	$ (1)	$ 130,977
Corporate debt	77,582	55	(36)	77,601
Government agency securities	61,004	9		61,013
Commercial paper	11,947			11,947
Total available-for-sale securities	$ 281,489	$ 86	$ (37)	$ 281,538

During the three months ended March 31, 2014 and 2013, available-for-sale securities were liquidated for total proceeds of $32.0 million and $101.2 million, respectively. For the three months ended March 31, 2014 there were no realized gains on these liquidations, which were all maturities of investments. For the three months ended March 31, 2013 the gross realized gains on these sales were $0.1 million. The cost of securities sold is based on specific identification.

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

	March 31, 2014			
	Less than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt	$ 25,916	$ (13)	$ 25,916	$ (13)
Total	$ 25,916	$ (13)	$ 25,916	$ (13)

December 31, 2013

	Less than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Corporate debt	$ 37,654	$ (36)	$ 37,654	$ (36)
U. S. treasuries	29,068	(1)	29,068	(1)
Total	$ 66,722	$ (37)	$ 66,722	$ (37)

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.

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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 March 31, 2014 and December 31, 2013 were temporary in nature and therefore did not recognize any impairment.

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

	March 31, 2014 Estimated Fair Value	
Due in one year or less	$	207,913
Due in 1 2 years		47,621
Due in 2 3 years		11,868