EDGAR Online

VEECO INSTRUMENTS INC

FORM 10-K
(Annual Report)

Filed 02/24/15 for the Period Ending 12/31/14

Address	TERMINAL DRIVE PLAINVIEW, NY 11803
Telephone	516 677-0200
CIK	0000103145
Symbol	VECO
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

Powered By EDGAR Online
http://www.edgar-online.com
© Copyright 2015, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

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 No.)
Terminal Drive **Plainview, New York**	**11803**
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by references in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 27, 2014 (the last business day of the registrant's most recently completed second quarter) was $1,454,417,866 based on the closing price of $36.83 on the NASDAQ Stock Market on that date.

The number of shares of each of the registrant's classes of common stock outstanding on February 17, 2015 was 40,361,759 shares of common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be used in connection with the Registrant's 2015 Annual Meeting of Stockholders are incorporated by

reference into Part III of this Form 10-K.

VEECO INSTRUMENTS INC.

IND EX

PART I	2
Item 1. Business	2
Item 1A. Risk Factors	7
Item 2. Properties	18
Item 3. Legal Proceedings	19
Item 4. Mine Safety Disclosures	19
PART II	19
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Stock Performance Graph	20
Item 6. Selected Financial Data	21
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	32
Item 8. Financial Statements and Supplementary Data	32
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	32
Item 9A. Controls and Procedures	33
Item 9B. Other Information	35
PART III	35
Item 10. Directors, Executive Officers and Corporate Governance	35
Item 11. Executive Compensation	35
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	35
Item 13. Certain Relationships and Related Transactions, and Director Independence	35
Item 14. Principal Accounting Fees and Services	35
PART IV	36
Item 15. Exhibits, Financial Statement Schedules	36
SIGNATURES	39

This Annual Report on Form 10-K ("Form 10-K") contains certain forward-looking information relating to Veeco Instruments Inc. (together with its consolidated subsidiaries, "Veeco," the "Company," "Registrant," "we," "our," or "us," unless the context indicates otherwise) that is based on the beliefs of, and assumptions made by, our management as well as information currently available to management. When used in this Form 10-K, the words "believes," "anticipates," "expects," "estimates," "targets," "plans," "intends," "will," and similar expressions relating to the future are intended to identify forward-looking information. Discussions containing such forward-looking statements may be found in Part I. Items 1, 3, 7 and 7A hereof, as well as within this Form 10-K generally. This forward-looking information reflects our current views with respect to future events and is subject to certain risks, uncertainties, and assumptions, some of which are described under the caption "Risk Factors" in Part I, Item 1A and elsewhere in this Form 10-K. Should one or more of these risks or uncertainties occur, or should our assumptions prove incorrect, actual results may vary materially from the forward-looking information described in this Form 10-K as believed, anticipated, expected, estimated, targeted, planned or similarly identified. We do not undertake any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

PART I.

Item 1. Business

We create process equipment that enables technologies for a cleaner and more productive world. We design, manufacture, and market thin film equipment aligned with global "megatrends" such as energy efficiency and mobility. Our equipment is primarily sold to make electronic devices including light emitting diodes ("LED"s), power electronics, wireless devices, hard disk drives, and semiconductors. We may also license our technology to our customers or partners.

We develop highly differentiated, "best-in-class" equipment for critical performance steps in thin film processing. Our products feature leading technology, low cost-of-ownership, and high throughput. Core competencies in advanced thin film technologies, over 300 patents, and decades of specialized process know-how helps us to stay at the forefront of these rapidly advancing industries.

We were organized as a Delaware corporation in 1989.

Business Overview and Industry Trends

We are focused on:

- Providing differentiated process equipment to address customers' next generation product development roadmaps;
- Investing to win through focused research and development spending in markets that we believe provide significant growth opportunities or are at an inflection point in process equipment requirements, including LED and power semiconductor devices, or that represent next-generation technologies, such as organic light-emitting diodes ("OLED");
- Leveraging our sales channel and local process applications support to build strong strategic relationships with technology leaders;
- Expanding our portfolio of service products that improve the performance of our systems, including spare parts, upgrades, and consumables to drive growth, reduce our customers' cost of ownership, and improve customer satisfaction;
- Combining outsourced and internal manufacturing strategies to flex manufacturing capacity through industry investment cycles; and
- Pursuing partnerships and acquisitions to expand our product portfolio and accelerate our growth.

Our systems, including our deposition and etch tools, are used in the creation of a broad range of microelectronic components, including LEDs, power semiconductors, thin film magnetic heads ("TFMH"s), and compound semiconductor devices. Our customers who manufacture these devices invest in our systems to develop their next generation products and deliver more efficient, cost effective, and advanced technological solutions. We operate in a cyclical business environment, and we are highly influenced by our customers' buying patterns that are themselves dependent upon industry trends. While our products are sold to multiple markets, the following discussion focuses on the trends that most influence our business.

Metal Organic Chemical Vapor Deposition Systems

We are the world's leading supplier of metal organic chemical vapor deposition ("MOCVD") systems. MOCVD production systems are used to make gallium nitride ("GaN") –based devices (blue and green LEDs) and Arsenic Phosphide ("AsP") –based devices (red, orange, and yellow LEDs), which are used in television and laptop backlighting, general illumination, large area signage, specialty illumination, and many other applications. Our AsP MOCVD systems are also used to make high-efficiency triple junction photovoltaic solar cells. In 2014 we introduced two new MOCVD platforms: the TurboDisc ® EPIK700 ™ GaN MOCVD System ("EPIK700") and the Propel ™ PowerGaN ™ MOCVD System ("Propel"). The EPIK700 MOCVD system combines the industry's highest productivity and best-in-class yields with low cost of operation, further enabling lower manufacturing costs for LEDs for general lighting applications. The Propel MOCVD system incorporates single-wafer reactor technology for outstanding film uniformity, yield, and device performance. We believe the Propel MOCVD system's new 200mm technology enables the development of highly-efficient GaN-based power electronic devices that have the potential to accelerate the industry's transition from research and development to high volume production.

Industry Trends Impacting MOCVD

As part of the shift toward more efficient energy use across the globe, we believe LED technology will play a key role in energy and cost savings in lighting. LED adoption is happening initially in outdoor, commercial, and industrial lighting where high usage and lower efficiency make incumbent lighting costly. LEDs still represent a small segment of the overall lighting market. According to a 2014 report from IHS Research, LEDs (unit lamps) will grow from today's 5% global market penetration to 23% by 2019. Further adoption of LEDs across all forms of lighting is expected to occur in the coming years, with rapidly declining LED costs, shortening payback periods versus conventional lighting technologies, and "ban-the-bulb" legislation now underway in more than 20 countries around the globe. In addition to the incandescent bulb phase-outs, many countries have implemented policies to accelerate adoption of LEDs. In the same report, IHS Research stated that unit shipments of LED chips used for lighting applications reached 108 billion during 2014 and are forecasted to grow at an over 20% compounded annual growth rate, reaching nearly 300 billion units shipped in 2019.

Our MOCVD technology is at the core of our customers' process tools that are required to make LEDs. We have experienced periods of rapid growth as LEDs were adopted for TV backlighting and LED producers, particularly in China, made significant investments in the industry. Following this investment wave, there was an oversupply of MOCVD equipment and our business went into a deep and prolonged decline. However, as the LED industry grows and LED adoption into the lighting market increases, our MOCVD business benefits, and we saw a meaningful improvement in 2014, driven by renewed equipment investments by global LED industry leaders. We expect further growth in our MOCVD products over the next few years. In order to help drive down the cost of LED manufacturing for our customers and maintain our market leadership position, we intend to keep introducing new products with significant cost of ownership advantages when compared to alternative equipment.

In other industry trends that impact MOCVD, we are seeing that power semiconductors are an emerging market opportunity for MOCVD equipment. While silicon-based transistors are the mainstream of power electronic devices today, GaN-on-Silicon based power electronics developed on MOCVD tools can potentially deliver higher performance (i.e., smaller form factors, higher efficiency, and better switching speed). Global industry leaders in power electronics are currently working on research and development programs to explore this new technology. Based on a June 2014 Yole Research report, GaN–based power electronics adoption is expected to reach 4% of the Power Device market in 2020, valued at approximately $566 million. This represents a compounded annual growth rate of 94% from 2014. The main driver of this growth is the adoption of GaN–based devices used for hybrid electric vehicles, consumer electronics, solar and wind power, and power supplies.

Molecular Beam Epitaxy Systems

Molecular Beam Epitaxy ("MBE") is the process of precisely depositing epitaxially aligned atomically thin crystal layers, or epilayers, of elemental materials onto a substrate in an ultra-high vacuum environment. Our MBE systems, sources, and components are used to manufacture critical epitaxial layers in applications such as solar cells, fiber-optics, mobile phones, radar systems, and displays. For many compound semiconductors, MBE is the critical first step of the fabrication process, ultimately determining device functionality and performance. We provide MBE systems and components for the production of wireless devices (e.g., power amplifiers, high electron mobility transistors, or hetero-junction bipolar transistors) and a broad array of research applications for new compound semiconductor materials. In 2013, we introduced the GENxplor™ R&D MBE System, the industry's first fully-integrated MBE system for the compound semiconductor research and development market. The GENxplor MBE system creates high quality epitaxial layers on substrates up to 3" in diameter and is ideal for cutting edge research on a wide variety of materials including gallium arsenide, nitrides, and oxides.

Industry Trends Impacting MBE

In 2013, we refocused our product portfolio to increase our market share in sales of MBE systems to scientific research organizations and universities. As a result, we won the majority of research orders in 2014. Variability in our MBE product portfolio is primarily influenced by funding of semiconductor research and development and manufacturing of compound semiconductor devices with MBE systems, such as laser diodes and rf devices for cell phones. Due to industry consolidation and resulting overcapacity, our sales of MBE production tools have been declining for the last two years.

Fast Array Scanning Atomic Layer Deposition Systems

Atomic Layer Deposition ("ALD") is a thin film deposition method in which a film is grown on a substrate by exposing its surface to alternate gaseous species. We believe that Fast Array Scanning ALD ("FAST-ALD™") represents a paradigm shift in a technology long known for excellent deposition uniformity and pin-hole free films. While traditional ALD is slow, costly, and limited to "chamber-sized" reactors, FAST-ALD can deposit materials below 100º Celsius and 10 times faster, making it capable of deposition on substrates with virtually no size limitation. Our patented linear reactor allows the chemical reaction to occur at the substrate's surface, and we are currently investigating applications for this technology in the OLED and semiconductor markets. In December 2014, we successfully demonstrated our FAST-ALD technology for flexible OLED encapsulation, but at the same time the incumbent deposition technology has progressed to satisfy current market requirements. As a result, we decided to refocus our ALD research and development efforts on ALD applications within the semiconductor and other markets. We continue to monitor the flexible OLED market opportunity.

Precision Surface Processing Systems

In December 2014, we acquired Solid State Equipment LLC, a leading innovator in single wafer wet etch, clean, and surface preparation equipment targeting high growth segments in advanced packaging, micro-electro-mechanical systems ("MEMS"), and compound semiconductor, for $145.5 million, net of cash acquired, and we have rebranded the business Precision Surface Processing ("PSP"). PSP's two core platforms are the WaferEtch™ and the WaferStorm™. The flagship of the WaferEtch platform, the TSV REVEALER™, is specifically configured to address the requirements of TSV reveal, which is the process where the backside of a wafer is thinned to reveal the copper interconnects. TSV reveal has become a target area in the manufacture of 2.5D and 3D-IC packaging for process control and cost reduction. The WaferStorm platform is based on PSP's unique soak and spray technology, which provides improved performance at a lower cost of ownership than conventional wet bench-only or spray-only approaches.

Industry Trends Impacting Surface Processing

Demand for higher performance, increased functionality, smaller form factor, and lower power consumption in mobile devices, consumer electronics, and high performance computing is expected to accelerate advanced packaging technology adoption. Key drivers for this inflection are applications in 3D stacked memory, 3D system-on-chip, and MEMS. Increasing shipments in smartphones and wearable electronics with more sophisticated sensing functions further drive growth in the MEMS market. Third party research firms including Yole Développement estimate that wafer-level packaging, GaN lighting LEDs, GaN power devices, and MEMS are expected to grow at double digit compound annual growth rates for the next three to five years.

Ion Beam Deposition Systems

Our NEXUS ® Ion Beam Deposition ("IBD") systems utilize ion beam technology to deposit precise layers of thin films. The NEXUS systems may be included on our cluster system platform to allow either parallel or sequential deposition/etch processes. IBD systems deposit high purity thin film layers and provide maximum uniformity and repeatability. In addition to IBD systems, we provide a broad array of ion beam sources. These technologies are applicable in the hard drive industry as well as for optical coatings and other end markets. Our SPECTOR ® systems offer manufacturers improvements in target material utilization, optical endpoint control, and process time for cutting-edge optical interference coating applications.

Ion Beam Etch Systems

Our NEXUS Ion Beam Etch ("IBE") systems utilize a charged particle beam consisting of ions to etch precise, complex features for use primarily by data storage and telecommunications device manufacturers in the fabrication of discrete and integrated microelectronic devices.

Other Data Storage Products

We make a broad array of deposition systems including Physical Vapor Deposition, Diamond Like Carbon Deposition, and Chemical Vapor Deposition Systems. In addition, our Optium ® products generally are used in "back-end" applications in data storage fabrication facilities where TFMHs or "sliders" are fabricated. This equipment includes lapping tools, which enable precise material removal within three nanometers, which is necessary for next generation TFMHs. We also manufacture tools that slice and dice wafers into row bars and TFMHs.

Industry Trends Impacting Our Ion Beam and Other Systems

While hard disk drives ("HDDs") face significant competition from flash memory, we believe that HDDs will continue to provide the best value for mass storage and will remain at the forefront of large capacity storage applications. This is especially true for data center applications where large volumes of data storage are required to serve an increasingly mobile population. According to data storage research firm TrendFocus' February 2014 report, shipments of TFMHs, the HDD component that our equipment makes, are forecasted to grow at a compound annual growth rate of 11% from 2014 to 2018. The HDD manufacturing industry continues to slowly absorb the excess manufacturing capacity that existed after significant consolidation of the industry in 2011. While we have started to see signs of capacity constraints in some process areas and have experienced an increase in orders for our equipment at the end of 2014, low growth is expected to continue. Future demand for our data storage systems is unclear and orders are expected to fluctuate from quarter to quarter.

Throughout industry cycles, we continue to invest in developing systems to support advanced technologies such as two dimensional magnetic recording ("TDMR") and heat assisted magnetic recording ("HAMR"). These technologies increase the density of data that can be stored on a disk and require technological advances in the TFMH design, manufacturing methods, and equipment.

Our ion beam and other data storage systems are also sold for applications in MEMS magnetic sensors, rf filters, optical coatings, and extreme ultraviolet ("EUV") photomasks. We have put in place new product development, marketing, and sales strategies to grow the non-data storage applications of our technologies. We expect growth to be driven by mobility trends (mobile phone chips and MEMS), and growth in our optical coatings business comes from higher throughput product offerings. Recent progress in EUV production readiness incrementally improves our outlook for this market.

Sales and Service

We sell our products and services worldwide primarily through various strategically located sales and service facilities in the United States, Europe, and Asia Pacific, and we believe that our customer service organization is a significant factor in our success. We provide service and support on a warranty, service contract, and an individual service-call basis. We believe that offering timely support creates stronger relationships with customers and provides us with a significant competitive advantage. Revenue from the sales of parts, upgrades, service, and support represented approximately 25%, 29%, and 21% of our net sales for the years ended December 31, 2014, 2013, and 2012, respectively. Part sales represented approximately 21%, 23%, and 17% of our net sales for those years, respectively, and service and support sales were 4%, 6%, and 4%, respectively.

Customers

We sell our products to many of the world's LED manufacturers, semiconductor manufacturers, hard drive manufacturers, research centers, and universities. We rely on certain principal customers for a significant portion of our sales. Sales to HC SemiTek and Seoul Viosys Co. each accounted for more than 10% of our total net sales in 2014, sales to HC SemiTek accounted for more than 10% of our total net sales in 2013, and sales to Western Digital accounted for more than 10% of our total net sales in 2012. If any principal customer discontinues its relationship with us or suffers economic difficulties, our business, prospects, financial condition, and operating results could be materially and adversely affected.

Research and Development

Our research and development functions are focused on the continued and timely creation of new products and enhancements to existing products, both of which are necessary to maintain our competitive position. We work collaboratively with our customers to help ensure our technology and product roadmaps are aligned with customer requirements. Our research and development activities take place at our facilities in Fremont, California; St. Paul, Minnesota; Somerset, New Jersey; Plainview, New York; Poughkeepsie, New York; Horsham, Pennsylvania; and Hyeongok-ri, South Korea.

Our research and development expenses were approximately $81.2 million, $81.4 million, and $95.2 million, or approximately 21%, 25%, and 18% of net sales for the years ended December 31, 2014, 2013, and 2012, respectively. These expenses consisted primarily of salaries, project materials, and other product development and enhancement costs.

Suppliers

We currently outsource certain functions to third parties, including the manufacture of all or substantially all of our MOCVD systems, ion beam and other data storage systems, and ion sources. We primarily rely on several suppliers for the manufacturing of these systems. In addition, certain of the components and sub-assemblies included in our products are obtained from a single source or a limited group of suppliers.

Backlog

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.

Our backlog increased to $286.7 million as of December 31, 2014 from $143.3 million as of December 31, 2013. During 2014, we recorded backlog adjustments of approximately $1.6 million relating to orders that no longer met our bookings criteria. As of December 31, 2014, $23.4 million of the backlog was from our acquisition of PSP.

Competition

In each of the markets that we serve, we face substantial competition from established competitors, some of which have greater financial, engineering, and marketing resources than us, as well as from smaller competitors. In addition, many of our products face competition from alternative technologies, some of which are more established than those used in our products. Significant factors for customer selection of our tools include system performance, accuracy, repeatability, ease of use, reliability, cost of ownership, and technical service and support. We believe that we are competitive based on the customer selection factors in each market we serve. None of our competitors compete with us across all of our product lines.

Some of our competitors include, but are not limited to: Applied Materials; LAM Research; Riber; Aixtron; Taiyo Nippon Sanso; Canon Anelva; DCA Instruments; Leybold Optics; Oerlikon Balzers; and Oxford Instruments.

Intellectual Property

Our success depends in part on our proprietary technology. Although we attempt to protect our intellectual property rights through patents, copyrights, trade secrets, and other measures, there can be no assurance that we will be able to protect our technology adequately or that competitors will not be able to develop similar technology independently. We have over 300 patents in the United States and other countries and have additional applications pending for new inventions.

We have patents and exclusive and non-exclusive licenses to patents owned by others covering certain of our products, which we believe provide us with a competitive advantage. We have a policy of seeking patents on inventions concerning new products and improvements as part of our ongoing research, development, and manufacturing activities. We believe that there is no single patent or exclusive or non-exclusive license to patents owned by others that is critical to our operations, as the success of our business depends primarily on the technical expertise, innovation, customer satisfaction, and experience of our employees.

We also rely upon trade secret protection for our confidential and propriety information. There can be no assurance that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or that we can meaningfully protect our trade secrets. In addition, we cannot be certain that we will not be sued by third parties alleging that we have infringed their patents or other intellectual property rights. If any third party sues us, our business, results of operations, or financial condition could be materially adversely affected.

Employees

As of December 31, 2014, we had approximately 800 employees, of which there were 147 in manufacturing and testing, 89 in sales and marketing, 153 in service and product support, 239 in engineering, research and development, and 158 in information technology, general administration, and finance. In addition, we had 13 temporary employees/outside contractors. The success of our future operations depends on our ability to recruit and retain engineers, technicians, and other highly skilled

professionals who are in considerable demand. We feel that we have adequate programs in place to attract, motivate, and retain our employees. We monitor industry practices to make sure that our compensation and employee benefits remain competitive. However, there can be no assurance that we will be successful in recruiting or retaining key personnel. We believe that our employee relations are good.

Financial Information About Segments and Geographic Areas

Refer to Note 19, "Segment Reporting and Geographic Information," in the Notes to the Consolidated Financial Statements for financial data pertaining to our segment and geographic operations.

Available Information

Our corporate website address is www.veeco.com. All filings we make with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, our proxy statements and any amendments thereto filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available for free in the Investor Relations section of our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Our SEC filings are available to be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our filings can also be obtained for free on the SEC's website at www.sec.gov. The reference to our website address does not constitute inclusion or incorporation by reference of the information contained on our website in this Form 10-K or other filings with the SEC, and the information contained on our website is not part of this document.

Item 1A. Risk Factors

Risk Factors That May Impact Future Results

Current and potential stockholders should consider carefully the risk factors described below. Any of these factors, many of which are beyond our control, could materially adversely affect our business, financial condition, operating results, cash flow, and stock price.

Unfavorable market conditions may adversely affect our operating results.

Conditions of the markets in which we operate are volatile and, in the past, have deteriorated significantly in many of the countries and regions in which we do business and may become depressed again in the future. Foreign government incentives designed to encourage the development of the LED industry have been unpredictable, and the availability of the incentives can impact the demand for our MOCVD products. We have experienced and may continue to experience customer rescheduling and, to a lesser extent, cancellations of orders for our products. Adverse market conditions relative to our products would negatively impact our business, and could result in:

- reduced demand for our products;
- rescheduling and cancellations of orders for our products, resulting in negative backlog adjustments;
- increased price competition and lower margin for our products;
- increased competition from sellers of used equipment or lower-priced alternatives to our products;
- increased risk of excess and obsolete inventories;
- increased risk in the collectability of amounts due from our customers;
- increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable;
- disruptions in our supply chain as we reduce our purchasing volumes and limit our contract manufacturing operations; and
- higher operating costs as a percentage of revenues.

If the markets in which we participate fail to experience a recovery or experience a further downturn, this could have a further negative impact on our sales and revenue generation, margins and operating expenses, and profitability.

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

We generate a significant portion of our revenue in China. In recent years, the Chinese government has provided various incentives to encourage development of the LED industry, including subsidizing a significant portion of the purchase cost of MOCVD equipment. These subsidies have enabled and encouraged certain customers in this region to purchase more of our MOCVD equipment than these customers might have purchased without these subsidies. The availability of these subsidies has varied over time and may end at some point in the future. A reduction or elimination of these incentives may result in a reduction in future orders for our MOCVD equipment in this region, which could materially and adversely affect our business, financial condition, and results of operations.

A related risk is that many customers use or had planned to use Chinese government subsidies, in addition to other incentives from the Chinese government, to build new manufacturing facilities or to expand existing manufacturing facilities. Delays in the start-up of these facilities or the cancellation of construction plans altogether, together with other related issues pertaining to customer readiness, could adversely impact the timing of our revenue recognition, could result in order cancellations, and could have other negative effects on our business, financial condition, and results of operation.

The cyclicality of the industries we serve directly affects our business.

Our business depends in large part upon the capital expenditures of manufacturers in the LED markets, data storage markets, and other device markets. We are subject to the business cycles of these industries, the timing, length, and volatility of which are difficult to predict. These industries have historically been highly cyclical and have experienced significant economic downturns in the last decade. As a capital equipment provider, our revenue depends in large part on the spending patterns of these customers, who often delay expenditures or cancel or reschedule orders in reaction to variations in their businesses or general economic conditions. In downturns, we must be able to quickly and effectively align our costs with prevailing market conditions, as well as motivate and retain key employees. However, because a portion of our costs are fixed, our ability to reduce expenses quickly in response to revenue shortfalls may be limited. Downturns in one or more of these industries have had and will likely have a material adverse effect on our business, financial condition, and operating results. Alternatively, during periods of rapid growth, we must be able to acquire and/or develop sufficient manufacturing capacity to meet customer demand, and attract, hire, assimilate, and retain a sufficient number of qualified people. We cannot give assurances that our net sales and operating results will not be adversely affected if our customers experience economic downturns or slowdowns in their businesses.

We operate in industries characterized by rapid technological change.

Each of the industries in which we operate are subject to rapid technological change. Our ability to remain competitive depends on our ability to enhance existing products and develop and manufacture new products in a timely and cost effective manner and to accurately predict technology transitions. Because new product development commitments must be made well in advance of sales, we must anticipate the future demand for products in selecting which development programs to fund and pursue. Our financial results for the current year and in the future will depend to a great extent on the successful introduction of several new products, many of which require achieving increasingly stringent technical specifications. We cannot be certain that we will be successful in selecting, developing, manufacturing, and marketing new products or new technologies or in enhancing existing products.

We depend on a limited number of customers, located primarily in a limited number of regions, which operate in highly concentrated industries.

Our customer base continues to be highly concentrated. Orders from a relatively limited number of customers have accounted for, and likely will continue to account for, a substantial portion of our net sales, which may lead customers to demand pricing and other terms less favorable to us. Our five largest customers accounted for 46% of our total net sales in 2014. Customer consolidation activity involving some of our largest customers could result in an even greater concentration of our sales in the future.

If a principal customer discontinues its relationship with us or suffers economic setbacks, our business, financial condition, and operating results could be materially and adversely affected. Our ability to increase sales in the future will depend in part upon our ability to obtain orders from new customers. We cannot be certain that we will be able to do so. In addition, because a relatively small number of large manufacturers, many of whom are our customers, dominate the industries in

which they operate, it may be especially difficult for us to replace these customers if we lose their business. A substantial portion of orders in our backlog are orders from our principal customers.

In addition, a substantial investment is required by customers to install and integrate capital equipment into a production line. As a result, once a manufacturer has selected a particular vendor's capital equipment, we believe that the manufacturer generally relies upon that equipment for the specific production line application and frequently will attempt to consolidate its other capital equipment requirements with the same vendor. Accordingly, if a customer selects a competitor's product over ours, we could experience difficulty selling to that customer for a significant period of time.

Furthermore, we do not have long-term contracts with our customers. As a result, our agreements with our customers do not provide any assurance of future sales, and we are exposed to competitive price pressure on each new order we attempt to obtain. Our failure to obtain new sales orders from new or existing customers would have a negative impact on our results of operations.

Our customer base is also highly concentrated in terms of geography, and the majority of our sales are to customers located in a limited number of countries. In 2014, 62% of our total net sales were to customers located in China, Taiwan and South Korea. Dependence upon sales emanating from a limited number of regions increases our risk of exposure to local difficulties and challenges, such as those associated with regional economic downturns, political instability, fluctuating currency exchange rates, natural disasters, social unrest, pandemics, terrorism, or acts of war. In addition, we may encounter challenges associated with political and social attitudes, laws, rules, regulations, and policies within these countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors. Our reliance upon customer demand arising primarily from a limited number of countries could materially adversely impact our future results of operations.

We face significant competition.

We face significant competition throughout the world, which may increase as certain markets in which we operate continue to expand. Some of our competitors have greater financial, engineering, manufacturing, and marketing resources than us. In addition, we face competition from smaller emerging equipment companies whose strategy is to provide a portion of the products and services we offer, with a focused approach on innovative technology for specialized markets. New product introductions or enhancements by us or our competitors could cause a decline in sales or loss of market acceptance of our existing or prior generation products. Increased competitive pressure could also lead to intensified price competition resulting in lower margins. Our failure to compete successfully with these other companies would seriously harm our business.

The timing of our orders, shipments, and revenue recognition may cause our quarterly operating results to fluctuate significantly.

We derive a substantial portion of our net sales in any fiscal period from the sale of a relatively small number of high-priced systems. As a result, the timing of recognition of revenue for a single transaction could have a material effect on our sales and operating results for a particular fiscal period. As is typical in our industry, orders, shipments, and customer acceptances often occur during the last few weeks of a quarter. As a result, delay of only a week or two will determine which period revenue is reported in and can cause volatility in our revenue for a given reporting period. Our quarterly results have fluctuated significantly in the past, and we expect this trend to continue. If our orders, shipments, net sales, or operating results in a particular quarter do not meet expectations, our stock price may be adversely affected.

Our sales cycle is long and unpredictable.

Historically, we have experienced long and unpredictable sales cycles (the period between our initial contact with a potential customer and the time when we recognize revenue from that customer). Our sales cycle can exceed twelve months. The timing of an order often depends on the capital expenditure budget cycle of our customers, which is completely out of our control. In addition, the time it takes us to build a product to customer specifications typically ranges from three to six months. When coupled with the fluctuating amount of time required for shipment, installation, and final acceptance, our sales cycles often vary widely, and variations in length of this period can cause further fluctuations in our operating results. As a result of our lengthy sales cycle, we may incur significant research and development expenses and selling, general, and administrative expenses before we generate revenues for these products. We may never generate the anticipated revenues if a customer cancels or changes plans. Variations in the length of our sales cycle could also cause our sales and, therefore, our cash flow and results of operation to fluctuate widely from period to period.

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.

Customer purchase orders are subject to cancellation or rescheduling by the customer, sometimes with limited or no penalties. Often, we have incurred expenses prior to such cancellation without adequate monetary compensation. We adjust our backlog for such cancellations, contract modifications, and delivery delays that result in a delivery period in excess of one year, among other items. A downturn in MOCVD could result in increases in order cancellations and/or postponements.

We record a provision for excess and obsolete inventory based on historical and future usage trends and other factors including the consideration of the amount of backlog we have on hand at any particular point in time. If our backlog is canceled or modified, our estimates of future product demand may prove to be inaccurate, in which case we may have understated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory is overvalued, we will be required to recognize such costs in our financial statements at the time of such determination. In addition, we place orders with our suppliers based on our customers' orders to us. If our customers cancel their orders with us, we may not be able to cancel our orders with our suppliers and may be required to take a charge for these cancelled commitments to our suppliers. Any such charges could be material to our results of operations and financial condition.

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.

Our business depends on our ability to accurately forecast and supply equipment, services, and related products that meet the rapidly changing technical and volume requirements of our customers, which depends in part on the timely delivery of parts, components, and subassemblies (collectively, "parts") from suppliers. Uncertain worldwide economic conditions and market instabilities make it difficult for us (and our customers and our suppliers) to accurately forecast future product demand. If actual demand for our products is different than expected, we may purchase more/fewer parts than necessary or incur costs for canceling, postponing, or expediting delivery of parts. If we overestimate the demand for our products, excess inventory could result, which could be subject to heavy price discounting, which could become obsolete, and which could subject us to liabilities to our suppliers for products no longer needed. Similarly, we may be harmed in the event that our competitors overestimate the demand for their products and engage in heavy price discounting practices as a result. In addition, the volatility of demand for capital equipment increases capital, technical, and other risks for companies in the supply chain.

Furthermore, some key parts may be subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers located in countries other than the United States. We may experience significant interruptions of our manufacturing operations, delays in our ability to deliver products or services, increased costs, or customer order cancellations as a result of:

- the failure or inability of suppliers to timely deliver quality parts;
- volatility in the availability and cost of materials;
- difficulties or delays in obtaining required import or export approvals;
- information technology or infrastructure failures;
- natural disasters (such as earthquakes, tsunamis, floods or storms); or
- other causes (such as regional economic downturns, pandemics, political instability, terrorism, or acts of war) that could result in delayed deliveries, manufacturing inefficiencies, increased costs, or order cancellations.

In addition, in the event of an unanticipated increase in demand for our products, our need to rapidly increase our business and manufacturing capacity may be limited by working capital constraints of our suppliers and may exacerbate any interruptions in our manufacturing operations and supply chain and the associated effect on our working capital. Any or all of these factors could materially and adversely affect our business, financial condition, and results of operations.

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.

To better align our costs with market conditions, increase the percentage of variable costs relative to total costs, and to increase productivity and operational efficiency, we have outsourced certain functions to third parties, including the manufacture of all or substantially all of our MOCVD systems, ion beam and other data storage systems, and ion sources. We are relying heavily on our outsourcing partners to perform their contracted functions and to allow us the flexibility to adapt to changing market conditions, including periods of significantly diminished order volumes. If our outsourcing partners do not perform as required, or if our outsourcing model does not allow us to realize the intended cost savings and flexibility, our results of operations (and those of our third party providers) may be adversely affected. Disputes and possibly litigation involving third party providers could result, and we could suffer damage to our reputation. Dependence on contract manufacturing and outsourcing may also adversely affect our ability to bring new products to market. Although we attempt to select reputable providers, it is possible that one or more of these providers could fail to perform as we expect. In addition, the role of third party providers has required and will continue to require us to implement changes to our existing operations and adopt new procedures and processes for retaining and managing these providers in order to realize operational efficiencies, assure quality, and protect our intellectual property. If we do not effectively manage our outsourcing strategy or if third party providers do not perform as anticipated, we may not realize the benefits of productivity improvements, and we may experience operational difficulties, increased costs, manufacturing and/or installation interruptions or delays, inefficiencies in the structure and/or operation of our supply chain, loss of intellectual property rights, quality issues, increased product time-to-market and/or inefficient allocation of human resources, any or all of which could materially and adversely affect our business, financial condition, and results of operations.

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

We currently outsource certain functions to third parties, including the manufacture of all or substantially all of our MOCVD systems, ion beam and other data storage systems, and ion sources. We primarily rely on several suppliers for the manufacturing of these systems. We plan to maintain some level of internal manufacturing capability for these systems. The failure of our suppliers to meet their contractual obligations under our supply arrangements and our inability to make alternative arrangements or resume the manufacture of these systems ourselves could have a material adverse effect on our relationships with our customers and/or our business, financial condition, and results of operation.

In addition, certain of the components and sub-assemblies included in our products are obtained from a single source or a limited group of suppliers. Our inability to develop alternative sources, if necessary, could result in a prolonged interruption in supply or a significant increase in the price of one or more components, which could adversely affect our business, financial condition, and results of operation.

Our inability to attract, retain, and motivate key employees could have a material adverse effect on our business.

Our success depends upon our ability to attract, retain, and motivate key employees, including those in executive, managerial, engineering, and marketing positions, as well as highly skilled and qualified technical personnel and personnel to implement and monitor our financial and managerial controls and reporting systems. Attracting, retaining, and motivating such qualified personnel may be difficult due to challenging industry conditions, competition for such personnel by other technology companies, consolidations and relocations of operations, and workforce reductions. While we have entered into employment agreements with certain key personnel, our inability to attract, retain, and motivate key personnel could have a material adverse effect on our business, financial condition, and results of operation.

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

We have considered numerous acquisition opportunities and completed several significant acquisitions in the past. We may consider acquisitions of, or investments in, other businesses in the future. Acquisitions involve numerous risks, many of which are unpredictable and beyond our control, including:

- difficulties and increased costs in integrating the personnel, operations, technologies, and products of acquired companies;
- diversion of management’s attention while evaluating, pursuing, and integrating the business to be acquired;
- potential loss of key employees of acquired companies, especially if a relocation or change in responsibilities is involved;

- difficulties in managing geographically dispersed operations in a cost-effective manner;
- lack of synergy or inability to realize expected synergies;
- unknown, underestimated, and/or undisclosed commitments or liabilities;
- increased amortization expense relating to intangible assets; and
- other adverse effects on our business, including the potential impairment and write-down of amounts capitalized as intangible assets and goodwill as part of the acquisition, as a result of technological advancements or worse-than-expected performance by the acquired company.

Our inability to effectively manage these risks could materially and adversely affect our business, financial condition, and results of operation. We are subject to many of these risks in connection with our recent acquisitions of Synos Technology, Inc. and Solid State Equipment LLC. Refer to Note 5, "Business Combinations," in the Notes to the Consolidated Financial Statements for information on these recent acquisitions.

In addition, if we issue equity securities to pay for an acquisition, the ownership percentage of our then-existing shareholders would be reduced and the value of the shares held by these shareholders could be diluted, which could adversely affect the price of our stock. If we use cash to pay for an acquisition, the payment could significantly reduce the cash that would be available to fund our operations or other purposes.

Timing of market adoption of LED technology for general lighting is uncertain.

Our future business prospects depend largely on the market adoption of products that incorporate our technologies. Potential barriers to such adoption include higher initial costs and customer familiarity with, and substantial investment and know-how in, existing technologies. These barriers apply to the adoption of LED technology for general illumination applications, including residential, commercial, and street lighting markets. While the use of LED technology for general lighting has grown in recent years, challenges remain and widespread adoption may not occur at currently projected rates. Furthermore, the adoption of, or changes in, government policies that discourage the use of traditional lighting technologies may impact LED adoption.

Our sales to LED, data storage and other 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.

The demand for LEDs, hard disk drives, and other Company products is highly dependent on sales of consumer electronics, such as flat-panel televisions and computer monitors, computers, tablets, digital video recorders, camcorders, MP3/4 players, smartphones, cell phones, and other mobile devices. Manufacturers of LEDs and hard disk drives are among our largest customers and have accounted for a substantial portion of our revenues for the past several years. Factors that could influence the levels of spending on consumer electronic products include consumer confidence, access to credit, volatility in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors have had and could continue to have a material adverse effect on the demand for our customers' products and, in turn, on our customers' demand for our products and services and on our financial condition and results of operations. Furthermore, manufacturers of LEDs have in the past overestimated their potential market share growth. If this growth is currently overestimated or is overestimated in the future, we may experience further cancellations of orders in backlog, rescheduling of customer deliveries, obsolete inventory and/or liabilities to our suppliers for products no longer needed.

In addition, the demand for some of our customers' products can be even more volatile and unpredictable due to the possibility of competing technologies, such as flash memory as an alternative to hard disk drives. Unpredictable fluctuations in demand for our customers' products or rapid shifts in demand from our customers' products to alternative technologies could materially adversely impact our future results of operations.

Our operating results have been, and may continue to be, adversely affected by tightening credit markets.

As a global company with worldwide operations, we are subject to volatility and adverse consequences associated with worldwide economic downturns. In the event of a worldwide downturn, many of our customers may delay or further reduce their purchases of our products and services. If negative conditions in the global credit markets prevent our customers from obtaining credit, product orders in these channels may decrease, which could result in lower revenue. In addition, we may

experience cancellations of orders in backlog, rescheduling of customer deliveries, and attendant pricing pressures. If our suppliers face challenges in obtaining credit, in selling their products, or otherwise in operating their businesses, they may become unable to continue to offer the materials we use to manufacture our products which could impair our operations.

Furthermore, tightening macroeconomic measures and monetary policies adopted by China's government aimed at preventing overheating of China's economy and controlling China's high level of inflation have limited, and may continue to limit, the availability of financing to our customers in this region. Limited financing, or delays in the timing of such financing, may result in delays and cancellations of shipments of our products (and associated revenues) conditioned on such financing.

In addition, we finance a portion of our sales through trade credit. In addition to ongoing credit evaluations of our customers' financial condition, we seek to mitigate our credit risk by obtaining deposits and/or letters of credit on certain of our sales arrangements. We could suffer significant losses if a customer whose accounts receivable we have not secured fails or is otherwise unable to pay us. A significant loss in collections on our accounts receivable would have a negative impact on our financial condition and results of operation.

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.

In 2014, approximately 89% of our net sales were generated from sales outside of the United States. We expect sales from non-U.S. markets to continue to represent a significant, and possibly increasing, portion of our sales in the future. Our non-U.S. sales and operations are subject to risks inherent in conducting business outside the United States, many of which are outside our control, including:

- difficulties in managing a global enterprise, including staffing, managing distributors and representatives, and repatriating cash in a tax efficient manner;
- regional economic downturns, varying foreign government support, and unstable political environments;
- political and social attitudes, laws, rules, regulations, and policies within countries that favor domestic companies over non-domestic companies, including government-supported efforts to promote the development and growth of local competitors;
- longer sales cycles and difficulty in collecting accounts receivable;
- multiple, conflicting, and changing governmental laws and regulations, including import/export controls and other trade barriers;
- reliance on various information systems and information technology to conduct our business, which may be vulnerable to cyber-attacks by third parties or breached due to employee error, misuse or other causes that could result in business disruptions, loss of or damage to intellectual property, transaction errors, processing inefficiencies, or other adverse consequences should our security practices and procedures prove ineffective, and
- different customs and ways of doing business.

These challenges, many of which are associated with sales into the Asia-Pacific region, may continue and recur again in the future, which could have a material adverse effect on our business. In addition, political instability, terrorism, acts of war, or epidemics in regions where we operate may adversely affect or disrupt our business and results of operation.

Furthermore, products which are either manufactured in the United States or based on U.S. technology are subject to the U.S. Export Administration Regulations ("EAR") when exported to and re-exported from international jurisdictions, in addition to the local jurisdiction's export regulations applicable to individual shipments. Currently, our MOCVD deposition systems and certain of our other products are controlled for export under the EAR. Licenses or proper license exceptions may be required for the shipment of our products to certain countries. Obtaining an export license requires cooperation from the customer and customer-facility readiness and can add time to the order fulfillment process. While we have generally been successful in obtaining export licenses in a timely manner, there can be no assurance that this will continue or that an export license can be obtained in each instance where it is required. If an export license is required but cannot be obtained, then we will not be permitted to export the product to the customer. The administrative processing, potential delay, and risk of ultimately not obtaining an export license pose a particular disadvantage to us relative to our non-U.S. competitors who are not required to comply with U.S. export controls. Non-compliance with the EAR or other applicable export regulations could result in a wide range of penalties including the denial of export privileges, fines, criminal

penalties, and the seizure of commodities. In the event that any export regulatory body determines that any of our shipments violate applicable export regulations, we could be fined significant sums and/or our export capabilities could be restricted, which could have a material adverse impact on our business.

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.

We are subject to the Foreign Corrupt Practices Act ("FCPA") and other laws that prohibit improper payments or offers of payments to foreign government officials, as defined by the statute, for the purpose of obtaining or retaining business. In addition, many of our customers have policies limiting or prohibiting us from providing certain types or amounts of entertainment, meals, or gifts to their employees. It is our policy to implement safeguards to discourage these practices by our employees and representatives. However, our safeguards may prove to be ineffective and our employees, consultants, sales agents, or distributors may engage in conduct for which we may be held responsible. Violations of the FCPA or similar laws or similar customer policies may result in severe criminal or civil sanctions or the loss of supplier privileges to a customer, and we may be subject to other liabilities, which could negatively affect our business, financial condition, and results of operation.

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.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must include in our Annual Report on Form 10-K a report by management on the effectiveness of our internal control over financial reporting. Ongoing compliance with this requirement is complex, costly, time-consuming, and is subject to significant judgment. If our internal controls are ineffective or if our management does not timely assess the adequacy of such internal controls, our ability to file timely and accurate periodic reports may be impeded. Any delays in filing may cause us to face the following risks and concerns, among others:

- concern on the part of our customers, partners, investors, and employees about our financial condition and filing delay status, including the potential loss of business opportunities;
- significant time and expense required to complete delayed filings and the distraction of our senior management team and board of directors as we work to complete delayed filings;
- investigations by the SEC and other regulatory authorities of the Company and of members of our management;
- limitations on our ability to raise capital and make acquisitions;
- suspension or termination of our stock listing on The NASDAQ Stock Market and the removal of our stock as a component of certain stock market indices; and
- general reputational harm.

Any or all of the foregoing could result in the commencement of stockholder lawsuits against the Company. Any such litigation, as well as any proceedings that could arise as a result of a filing delay and the circumstances which gave rise to it, may be time consuming and expensive, may divert management attention from the conduct of our business, could have a material adverse effect on our business, financial condition, and results of operations, and may expose us to costly indemnification obligations to current or former officers, directors, or other personnel, regardless of the outcome of such matters, which may not be adequately covered by insurance.

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

Changes in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results. New accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practices have occurred and may occur in the future. New rules, changes to existing rules, if any, or the questioning of our current or past practices may adversely affect our reported financial results or change the way we conduct our business.

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 are required to assess goodwill and indefinite-lived intangible assets annually for impairment, or on an interim basis, whenever certain events occur or circumstances change, such as an adverse change in business climate or a decline in the overall industry, that would more likely than not reduce the fair value below its carrying amount. We are also required to test our definite-lived assets, including acquired intangible assets and property, plant, and equipment, for recoverability and impairment whenever there are indicators of impairment, such as an adverse change in business climate.

As part of our long-term strategy, we may pursue future acquisitions of other companies or assets which could potentially increase our goodwill and intangible and long-lived assets. Adverse changes in business conditions could materially impact our estimates of future operations and result in additional impairment charges to these assets. If our goodwill or intangible and long-lived assets were to become further impaired, our financial condition and results of operation could be materially and adversely affected.

The price of our common shares may be volatile and could decline significantly.

The stock market in general and the market for technology stocks in particular has experienced volatility that has often been unrelated to the operating performance of companies. If these market or industry-based fluctuations continue, the trading price of our common shares could decline significantly independent of our actual operating performance, and shareholders could lose all or a substantial part of their investment. The market price of our common shares could fluctuate significantly in response to several factors, including, among others:

- general stock market conditions and uncertainty, such as those occasioned by a global liquidity crisis, negative financial news, and a failure of large financial institutions;
- receipt of substantial orders or cancellations for our products;
- issues associated with the performance and reliability of our products;
- actual or anticipated variations in our results of operations;
- announcements of financial developments or technological innovations;
- our failure to meet the performance estimates of investment research analysts;
- changes in recommendations and/or financial estimates by investment research analysts;
- strategic transactions, such as acquisitions, divestitures, or spin-offs; and
- the occurrence of major catastrophic events.

Significant price and value fluctuations have occurred with respect to the publicly traded securities of the Company and technology companies generally. The price of our common shares is likely to be volatile in the future. In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. If similar litigation were pursued against us, it could result in substantial costs and a diversion of management’s attention and resources, which could materially and adversely affect our financial condition, results of operation, and liquidity.

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

Our success depends in part upon the protection of our intellectual property rights. We rely primarily on patent, copyright, trademark, and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary information, technologies, and processes. We own various U.S. and international patents and have additional pending patent applications relating to certain of our products and technologies. The process of seeking patent protection is lengthy and expensive, and we cannot be certain that pending or future applications will actually result in issued patents or that issued patents will be of sufficient scope or strength to provide meaningful protection or commercial advantage. In addition, our intellectual property rights may be circumvented, invalidated, or rendered obsolete by the rapid pace of technological change. Policing unauthorized use of our products and technologies is difficult and time consuming. Furthermore, the laws of other countries may less effectively protect our proprietary rights than U.S. laws. Our outsourcing strategy requires that we share certain portions of our technology with our outsourcing partners, which poses additional

risks of infringement and trade secret misappropriation. Infringement of our rights by a third party, possibly for purposes of developing and selling competing products, could result in uncompensated lost market and revenue opportunities. Similar exposure could result in the event that former employees seek to compete with us through their unauthorized use of our intellectual property and proprietary information. We cannot be certain that the steps we have taken will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary intellectual property rights as fully or as readily as U.S. laws. Further, we cannot be certain that the laws and policies of any country, including the United States, with respect to intellectual property enforcement or licensing will not be changed in a way detrimental to the sale or use of our products or technology.

We may need to litigate to enforce our intellectual property rights, protect our trade secrets, or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our ability to enforce one or more patents or incur substantial unexpected costs. Any action we take to enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results. In addition, failure to protect our trademark rights could impair our brand identity.

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

From time to time we have received communications from other parties asserting the existence of patent or other rights which they believe cover certain of our products. We also periodically receive notice from customers who believe that we are required to indemnify them for damages they may incur related to infringement claims made against these customers by third parties. Our customary practice is to evaluate such assertions and to consider the available alternatives, including whether to seek a license, if appropriate. However, we cannot ensure that licenses can be obtained or, if obtained, will be on acceptable terms or that costly litigation or other administrative proceedings will not occur. If we are not able to resolve a claim, negotiate a settlement of the matter, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend our position, our business, financial condition, and results of operation could be materially and adversely affected.

We are subject to foreign currency exchange risks.

We are exposed to foreign currency exchange rate risks that are inherent in our anticipated sales, sales commitments, and assets and liabilities that are denominated in currencies other than the U.S. dollar. Although we attempt to mitigate our exposure to fluctuations in currency exchange rates, hedging activities may not always be available or adequate to eliminate, or even mitigate, the impact of our exchange rate exposure. Failure to sufficiently hedge or otherwise manage foreign currency risks properly could materially and adversely affect our financial condition, results of operation, and liquidity.

If we are subject to cyber-attacks we could incur substantial costs and, if such attacks are successful, significant liabilities, reputational harm, and disruption to our operations.

We manage, store, and transmit various proprietary information and sensitive data relating to our operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information (and/or third party confidential information), create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our systems or our products, or that otherwise exploit any security vulnerabilities.

The costs to address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service, and loss of existing or potential customers that may impede our sales, manufacturing, distribution, or other critical functions. In addition, breaches of our security measures and the unapproved dissemination of proprietary information or sensitive data about us or our customers or other third parties, could expose us, our customers, or other third parties to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our reputation, or otherwise harm our business.

We have adopted certain measures that may have anti-takeover effects which may make an acquisition of our Company by another company more difficult.

We have adopted, and may in the future adopt, certain measures that may have the effect of delaying, deferring, or preventing a takeover or other change in control of our Company, any of which a holder of our common stock might not consider to be in the holder's best interest. These measures include:

- "blank check" preferred stock;
- classified board of directors; and
- certain certificate of incorporation and bylaws provisions.

Our board of directors has the authority to issue up to 500,000 shares of preferred stock and to fix the rights (including voting rights), preferences, and privileges of these shares ("blank check" preferred). Such preferred stock may have rights, including economic rights, senior to our common stock. As a result, the issuance of the preferred stock could have a material adverse effect on the price of our common stock and could make it more difficult for a third party to acquire a majority of our outstanding common stock.

Our board of directors is divided into three classes with each class serving a staggered three-year term. The existence of a classified board will make it more difficult for our shareholders to change the composition (and therefore the policies) of our board of directors in a relatively short period of time.

We have adopted certain certificate of incorporation and bylaws provisions which may have anti-takeover effects. These include: (a) requiring certain actions to be taken at a meeting of shareholders rather than by written consent, (b) requiring a super-majority of shareholders to approve certain amendments to our bylaws, (c) limiting the maximum number of directors, and (d) providing that directors may be removed only for "cause." These measures and those described above may have the effect of delaying, deferring, or preventing a takeover or other change in control of the Company that a holder of our common stock might consider to be in the holder's best interest.

In addition, we are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware, which prohibits a Delaware corporation from engaging in any business combination, including mergers and asset sales, with an interested stockholder (generally, a 15% or greater stockholder) for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The operation of Section 203 may have anti-takeover effects, which could delay, defer, or prevent a takeover attempt that a holder of our common stock might consider to be in the holder's best interest.

Despite the above measures, an activist shareholder could undertake action to implement governance, strategic, or other changes to the Company which a holder of our common stock might not consider to be in the holder's best interest. Such activities could interfere with our ability to execute our strategic plans, be costly and time consuming, disrupt our operations, and divert the attention of management and our employees.

We are subject to risks of non-compliance with environmental, health, and safety regulations.

We are subject to environmental, health, and safety regulations in connection with our business operations, including but not limited to regulations related to the research, development, and use of our products. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines, and/or the suspension or termination of research, development, or use of certain of our products, each of which could have a material adverse effect on our business, financial condition, and results of operation. In addition, some of our operations involve the storage, handling, and use of hazardous materials that may pose a risk of fire, explosion, or environmental release. Such events could result from acts of terrorism, natural disasters, or operational failures and may result in injury or loss of life to our employees and others, local environmental contamination, and property damage. These events might cause a temporary shutdown of an affected facility, or portion thereof, and we could be subject to penalties or claims as a result. Each of these events could have a material adverse effect on our business, financial condition, and results of operation.

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.

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the SEC adopted new requirements for companies that manufacture products that contain certain minerals and metals, known as conflict minerals. These rules require public companies to perform diligence and to report annually to the SEC whether such minerals originate from the Democratic Republic of Congo and adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability, and pricing of minerals we use in the manufacture of our products. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Given the complexity of our supply chain, we may not be able to ascertain the origins of these minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as conflict mineral free, which could harm our relationships with these customers and lead to a loss of revenue. These new requirements could limit the pool of suppliers that can provide conflict-free minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

We have significant operations in locations which could be materially and adversely impacted in the event of a natural disaster or other significant disruption.

Our operations in the United States, the Asia-Pacific region, and in other areas could be subject to natural disasters or other significant disruptions, including earthquakes, tsunamis, fires, hurricanes, floods, water shortages, other extreme weather conditions, medical epidemics, acts of terrorism, power shortages and blackouts, telecommunications failures, and other natural and manmade disasters or disruptions. In the event of such a natural disaster or other disruption, we could experience disruptions or interruptions to our operations or the operations of our suppliers, distributors, resellers or customers, destruction of facilities, and/or loss of life, all of which could materially increase our costs and expenses and materially and adversely affect our business, financial condition, and results of operation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters and our principal research and development, manufacturing, and sales and service facilities are:

Owned Facilities Location	Approximate Size (sq. ft.)	Mortgaged	Use
Plainview, NY	80,000	No	Corporate Headquarters; R&D; Manufacturing; Sales & Service
Somerset, NJ	80,000	No	R&D; Manufacturing; Sales & Service
Somerset, NJ	38,000	No	R&D; Sales & Service
St. Paul, MN [(1)]	43,000	Yes	R&D; Manufacturing; Sales & Service
St. Paul, MN [(1)]	75,000	Yes	Assets held for sale
Yongin-city, South Korea	56,000	No	Sales & Service
Hyeongok-ri, South Korea	15,000	No	R&D; Sales & Service

(1) We consolidated our business into one building, leaving the adjacent building held for sale.

Leased Facilities Location	Approximate Size (sq. ft.)	Lease Expires	Use
Fort Collins, CO	26,000	2018	Held for Sublease
Malvern, PA	4,000	2015	Held for Sublease
Horsham, PA	48,900	2024	R&D; Manufacturing; Sales & Service
Somerset, NJ	14,000	2015	Warehouse
Poughkeepsie, NY	9,400	2017	R&D and Manufacturing
Kingston, NY	36,500	2018	Manufacturing
Fremont, CA	25,400	2015	R&D; Manufacturing; Sales & Service
Shanghai, China	9,900	2017	Sales & Service
Hsinchu City, Taiwan	13,000	2015	Sales & Service

We lease a small office in Edina, Minnesota for sales and service. Our foreign sales and service subsidiaries lease office space in China, Germany, Malaysia, Philippines, Singapore, South Korea, Thailand, and United Kingdom. Our facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

Environmental

We are aware that petroleum hydrocarbon contamination has been detected in the soil at the site of a facility formerly leased by us in Santa Barbara, California. We have been indemnified for any liabilities we may incur which arise from environmental contamination at the site. Even without consideration of such indemnification, we do not believe that any material loss or expense is probable in connection with any such liabilities. The former owner of the land and building in Santa Barbara, California in which our former Metrology operations were located (which business was sold to Bruker Corporation ("Bruker") on October 7, 2010), has disclosed that there are hazardous substances present in the ground under the building. Management believes that the comprehensive indemnification clause that was part of the purchase contract relating to the purchase of such land provides adequate protection against any environmental issues that may arise. We have provided Bruker with similar indemnification as part of the sale.

Non-Environmental

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. We believe this lawsuit is without merit and intend to defend vigorously against the claims. We are unable to predict the outcome of this action or to reasonably estimate the possible loss or range of loss, if any, arising from the claims asserted therein. We believe that, in the event of any recovery by the plaintiff from Veeco, such recovery would be fully covered by our insurance.

We are involved in various other legal proceedings arising in the normal course of our business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

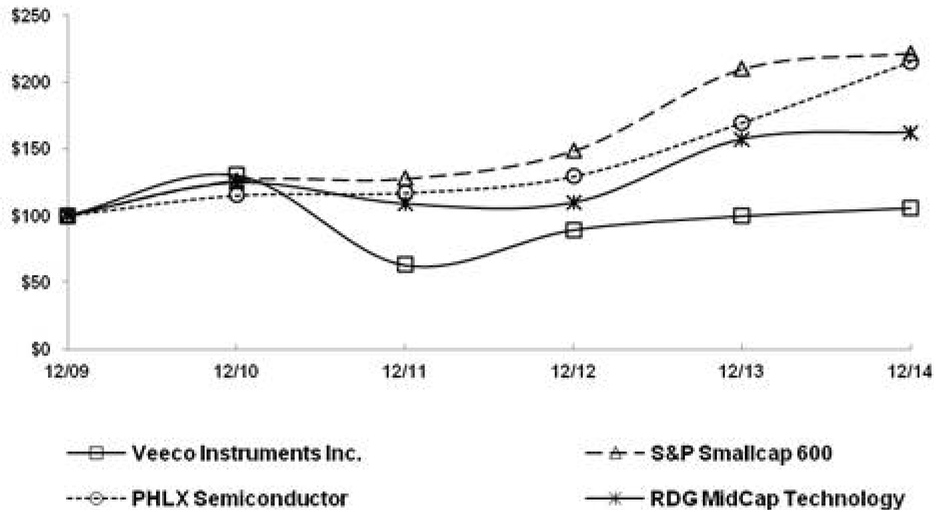
Our common stock is quoted on The NASDAQ Stock Market under the symbol "VECO." The 2014 and 2013 high and low closing bid prices by quarter are as follows:

	2014		2013	
	High	Low	High	Low
First Quarter	$ 43.30	$ 32.18	$ 38.41	$ 28.71
Second Quarter	43.63	30.75	42.60	32.23
Third Quarter	37.26	33.22	36.41	33.16
Fourth Quarter	37.72	30.61	38.15	28.44

On February 17, 2015, the closing bid price for our common stock on The NASDAQ Stock Market was $31.14 and we had 106 shareholders of record.

We have not paid dividends on our common stock. The Board of Directors will determine future dividend policy based on our consolidated results of operations, financial condition, capital requirements, and other circumstances.

Stock Performance Graph



ASSUMES $100 INVESTED ON DEC. 31 , 2009
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDING DEC. 31

	2009	2010	2011	2012	2013	2014
Veeco Instruments Inc.	100.00	130.02	62.95	89.26	99.61	105.57
S&P Smallcap 600	100.00	126.31	127.59	148.42	209.74	221.81
PHLX Semiconductor	100.00	115.11	116.95	129.28	169.57	215.25
RDG MidCap Technology	100.00	124.68	109.02	109.89	157.10	162.20

Item 6. Selected Financial Data

The information set forth below should be read in conjunction with the "Results of Operations" section included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Statement of Operations Data:					
Net sales [1]	$ 392,873	$ 331,749	$ 516,020	$ 979,135	$ 930,892
Operating income (loss) [1]	$ (79,209)	$ (71,812)	$ 37,212	$ 276,259	$ 303,253
Income (loss) from continuing operations, net of tax [1]	$ (66,940)	$ (42,263)	$ 26,529	$ 190,502	$ 277,176
Basic income per common share from continuing operations [1]	$ (1.70)	$ (1.09)	$ 0.69	$ 4.80	$ 7.02
Diluted income per common share from continuing operations [1]	$ (1.70)	$ (1.09)	$ 0.68	$ 4.63	$ 6.52

[1] Information presented excludes the results of our discontinued operations.

	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 270,811	$ 210,799	$ 384,557	$ 217,922	$ 245,132
Short-term investments	$ 120,572	$ 281,538	$ 192,234	$ 273,591	$ 394,180
Working capital	$ 387,254	$ 485,452	$ 632,197	$ 587,076	$ 640,139
Total assets	$ 929,455	$ 947,969	$ 937,304	$ 936,063	$ 1,148,034
Long-term debt (less current installments)	$ 1,533	$ 1,847	$ 2,138	$ 2,406	$ 2,654
Total equity	$ 738,932	$ 780,230	$ 811,212	$ 760,520	$ 762,512

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

After a multiyear downturn in MOCVD, LED lighting adoption is accelerating and LED fabrication utilization rates are increasing at most of our key customers to levels that will require additional capacity purchases. Our customers are also reporting better market demand for products with LED backlighting. As a result, our MOCVD bookings improved meaningfully in 2014 over 2013. And while quarterly MOCVD customer order patterns fluctuate, we expect multiyear growth for our MOCVD systems. We also continue to invest in our existing MOCVD products and new, innovative technologies to further reduce our customers' cost of ownership and improve their manufacturing capability. But while we are seeing a general improvement in the MOCVD market, competitive pricing pressure, which had a negative effect on our gross margins in 2014 and 2013, is difficult to predict and may continue to depress our margins in the future.

In December 2014, we determined that the incumbent deposition technology for flexible OLED display encapsulation had progressed to satisfy current market requirements and that we were unlikely to receive large orders for our Fast ALD products in the near future. As a result, we plan to lower our spending rate on our ALD products, refocus our research and development efforts on ALD applications in semiconductor and other markets, and continue to assess our flexible OLED market opportunity. The reduction in near-term forecasted orders and cash flows required us to assess our ALD reporting unit for impairment, and we recorded a non-cash impairment charge of $53.9 million related to goodwill and other long-lived assets for ALD. Also in 2014, we determined that certain performance milestones that would have triggered contingent payments to the original ALD shareholders were not going to be met and as a result we recorded a non-cash gain of $29.4 million.

In December 2014, we acquired PSP for $145.5 million, net of cash acquired, and entered the market for single wafer wet etch, clean, and surface preparation equipment targeting high growth segments in advanced packaging, MEMS, and compound semiconductor. For the period from the acquisition date through December 31, 2014, we generated $7.9 million of net sales

and incurred a loss from operations before tax of $3.0 million. The loss from operations was attributable to the write-up of existing inventory on the date of acquisition to fair value, which eliminated the gross margin on the sale of those systems.

We are seeing some signs of improved conditions in our HDD market as cloud related expansion continues to demand higher capacity drives. And although we have started to see signs of capacity constraints in some process areas and there was an increase in orders for some of our equipment at the end of 2014, low growth is expected to continue. Future demand for our systems sold in the HDD industry is unclear and orders are expected to fluctuate from quarter to quarter.

Results of Operations

Years Ended December 31, 2014 and 2013

The following table presents revenue and expense line items reported in our Consolidated Statements of Operations for fiscal 2014 and 2013 and the period-over-period dollar and percentage changes for those line items. Our results of operations are reported as one business segment.

	For the year ended December 31,				Dollar and Percentage Change Period to Period	
	2014		2013			
	(dollars in thousands)					
Net sales	$ 392,873	100.0%	$ 331,749	100.0%	$ 61,124	18.4%
Cost of sales	257,991	65.7%	228,607	68.9%	29,384	12.9%
Gross profit	134,882	34.3%	103,142	31.1%	31,740	30.8%
Operating expenses, net:						
Selling, general, and administrative	89,760	22.8%	85,486	25.8%	4,274	5.0%
Research and development	81,171	20.7%	81,424	24.5%	(253)	(0.3)%
Amortization	13,146	3.3%	5,527	1.7%	7,619	137.9%
Restructuring	4,394	1.1%	1,485	0.4%	2,909	195.9%
Asset impairment	58,170	14.8%	1,220	0.4%	56,950	4,668.0%
Changes in contingent consideration	(29,368)	(7.5)%	829	0.2%	(30,197)	*
Other, net	(3,182)	(0.8)%	(1,017)	(0.3)%	(2,165)	212.9%
Total operating expenses, net	214,091	54.5%	174,954	52.7%	39,137	22.4%
Operating income (loss)	(79,209)	(20.2)%	(71,812)	(21.6)%	(7,397)	10.3%
Interest income (expense), net	855	0.2%	602	0.2%	253	42.0%
Income (loss) before income taxes	(78,354)	(19.9)%	(71,210)	(21.5)%	(7,144)	10.0%
Income tax provision (benefit)	(11,414)	(2.9)%	(28,947)	(8.7)%	17,533	(60.6)%
Income (loss) from continuing operations	$ (66,940)	(17.0)%	$ (42,263)	(12.7)%	$ (24,677)	58.4%

* Not Meaningful

Net Sales

The following is an analysis of sales by region:

	December 31,				Dollar and Percentage Change Period to Period	
	2014		2013			
	(dollars in thousands)					
Regional Analysis						
United States	$ 44,060	11.2%	$ 57,609	17.4%	$ (13,549)	(23.5)%
Asia Pacific	311,182	79.2%	252,199	76.0%	58,983	23.4%
EMEA [1] and other	37,631	9.5%	21,941	6.6%	15,690	71.5%
Total	$ 392,873	100.0%	$ 331,749	100.0%	$ 61,124	18.4%

[1] Consists of Europe, the Middle East, and Africa

Total sales increased in 2014 from 2013 primarily due to an increase in the volume of MOCVD systems, largely due to customers increasing their manufacturing capacity. Pricing was not a significant driver of the change in total sales. Total sales also increased as a result of our acquisition of PSP, which contributed $7.9 million to 2014 results. The increase in sales was partially offset by a decline in volume of our systems sold to data storage customers, primarily due to our customers' unwillingness to make technology investments given the overcapacity in the hard drive industry. By region, sales decreased in the United States in 2014 primarily due to a decrease in purchases by our data storage customers. In Asia Pacific, sales increased as a result of MOCVD sales growth in Korea and China. In EMEA, sales increased as a result of growth in both MOCVD and ion beam and other data storage system sales. We believe there will continue to be year-to-year variations in the geographic distribution of sales in the future.

Between 2014 and 2013, total orders increased $178.8 million, or 54%, to $510.0 million. The increase is primarily attributable to a 74% increase in orders of our MOCVD systems largely as customers in China, Europe, and Korea begin to add manufacturing capacity. Ion beam and other data storage system and service orders increased 5% between 2014 and 2013, but given the slow growth and overcapacity in the hard drive industry, we expect demand to be weak as customers continue to only make select technology purchases.

One of the performance measures we use as a leading indicator of the business is the book-to-bill ratio. The ratio is defined as orders recorded in a given period divided by revenue recognized in the same period. A ratio greater than one indicates we are adding orders faster than we are recognizing revenue. In 2014, the ratio was 1.3, an improvement over 2013, when it was 1.0. Our backlog as of December 31, 2014 was $286.7 million, which was higher than the ending backlog as of December 31, 2013 of $143.3 million. As of December 31, 2014, $23.4 million of the backlog was from our acquisition of PSP. During the year ended December 31, 2014 we recorded backlog adjustments of approximately $1.6 million relating to orders that no longer met our bookings criteria. For certain sales arrangements we require a deposit for a portion of the sales price prior to manufacturing a system for a customer. As of December 31, 2014 and 2013, we had customer deposits of $73.0 million and $27.5 million, respectively.

Gross Profit

	For the year ended December 31,		Dollar and Percentage Change Period to Period	
	2014	**2013**		
	(dollars in thousands)			
Gross profit - Total	$ 134,882	$ 103,142	$ 31,740	30.8%
Gross margin	34.3%	31.1%		

Gross margins increased from the prior year primarily due to higher MOCVD sales volume, a favorable mix of products, and favorable warranty and service spending. This was partially offset by our acquisition of PSP, whereby we wrote up existing inventory on the date of acquisition to fair value, unfavorable overhead rates, primarily driven by our ALD business, and declines in margins from our ion beam and other data storage system sales that resulted from reduced sales volume, higher inventory reserves, and unfavorable overhead rates.

Selling, general, and administrative

Selling, general, and administrative expenses increased primarily due to an increase in personnel and personnel-related expenses, including an increase in share-based compensation of $3.5 million as well as additional costs from our ALD business, which was acquired in the fourth quarter of 2013. Our acquisition of PSP in the fourth quarter of 2014 also contributed to the increase in selling, general, and administrative expenses, including $3.2 million of acquisition related costs. Partially offsetting the increase in selling, general, and administrative expense was a reduction in third party professional fees associated with an accounting review, which was completed in the fourth quarter of 2013.

Research and development

We continue to invest in research and development of new products and enhancements to existing products and spent $81.2 million and $81.4 million in 2014 and 2013, respectively. In 2014, we spent additional amounts on our ALD technology as compared with 2013, offset by a reduction in spending in our other product lines. We continue to focus our research and development expenses on projects in areas we anticipate to be high-growth. We selectively funded these product development activities which resulted in lower professional consulting expense, as well as reduced spending for project materials and personnel and personnel-related costs.

Amortization expense

Amortization expense increased primarily due to additional amortization associated with intangible assets acquired as part of our acquisition of ALD during the fourth quarter of 2013. We expect to incur additional amortization expense in 2015 as a result of intangible assets acquired as part of our acquisition of PSP during the fourth quarter of 2014, partially offset by the elimination of amortization of certain ALD intangible assets that have been either impaired or fully amortized in the fourth quarter of 2014.

Restructuring expense

During 2014, we announced the closing of our Ft. Collins, Colorado and Camarillo, California facilities. Business activities formally conducted at these sites have been transferred to our Plainview, New York facility. In addition, we responded to the challenging business environment we were facing, particularly for sales to customers in the data storage industry, and reduced headcount by approximately 90 employees. As a results of these actions, we recorded $4.4 million in personnel severance and related costs and facility closing costs.

During 2013, we recorded $1.5 million in personnel severance and related costs principally resulting from the transition from a direct sales presence in Japan to a distributor model and the consolidation of certain sales and administrative functions.

Asset impairment

During 2014, based on a combination of factors, including our determination that incumbent deposition technology for flexible OLED display encapsulation had progressed to satisfy current market requirements, we believed that there were sufficient indicators that required an interim asset impairment analysis on our ALD reporting unit. As a result of our analysis, we recorded non-cash impairment charges of $28.0 million related to goodwill and $25.9 million related to other long-lived assets, including $17.4 million related to customer relationships, $4.8 million related to in-process research and development, and $3.6 million related to certain tangible assets. In addition, during 2014, we recognized $4.3 million of asset impairments on tangible assets held for sale, including certain lab tools and a vacant building and land. During 2013, we recognized asset impairment charges of $1.2 million on tangible assets held for sale, including certain lab tools.

Changes in Contingent Consideration

Included in our agreement to acquire ALD in the fourth quarter of 2013 were performance milestones that could trigger contingent payments to the original selling shareholders. During the year ended December 31, 2013, the first milestone was achieved, and we paid the former shareholders $5.0 million and increased the estimated fair value of the remaining contingent payments by $0.8 million. During 2014, we determined that all of the remaining performance milestones were not met, reversed the fair value of the liability, and recorded a non-cash gain of $29.4 million.

Other, net

During 2014, we completed our plan to liquidate our subsidiary in Japan, since we moved to a distributor model to serve our customers in that region. As a result of the liquidation, we reclassified a cumulative translation gain of $3.1 million from Other Comprehensive Income to “Other, net” on the Consolidated Statements of Operations.

Income Taxes

The 2014 net benefit for income taxes included a $13.4 million tax benefit relating to our domestic operations offset by a $2.0 million tax provision relating to our foreign operations. The 2013 net benefit for income taxes included a $32.4 million benefit relating to our domestic operations offset by a $3.5 million provision relating to our foreign operations. Our 2014 effective tax rate is lower than the statutory rate primarily related to a $4.9 million tax benefit associated with our successful negotiation of an incentive tax rate in one of our foreign subsidiaries, a $2.3 million reversal of uncertain tax positions as a result of concluding the 2010 IRS examination, and the recognition of only a portion of our U.S. deferred tax assets on a more-likely-than-not basis with respect to current year pre-tax operating losses. We maintain a valuation allowance on our net domestic deferred tax assets.

Years Ended December 31, 2013 and 2012

The following table presents revenue and expense line items reported in our Consolidated Statements of Operations for fiscal 2013 and 2012 and the period-over-period dollar and percentage changes for those line items.

	For the year ended December 31,				Dollar and Percentage Change	
	2013		2012		Period to Period	
			(dollars in thousands)			
Net sales	$ 331,749	100.0%	$ 516,020	100.0%	$ (184,271)	(35.7)%
Cost of sales	228,607	68.9%	300,887	58.3%	(72,280)	(24.0)%
Gross profit	103,142	31.1%	215,133	41.7%	(111,991)	(52.1)%
Operating expenses, net:						
Selling, general, and administrative	85,486	25.8%	73,110	14.2%	12,376	16.9%
Research and development	81,424	24.5%	95,153	18.4%	(13,729)	(14.4)%
Amortization	5,527	1.7%	4,908	1.0%	619	12.6%
Restructuring	1,485	0.4%	3,813	0.7%	(2,328)	(61.1)%
Asset impairment	1,220	0.4%	1,335	0.3%	(115)	(8.6)%
Changes in contingent consideration	829	0.2%	—	0.0%	829	*
Other, net	(1,017)	(0.3)%	(398)	(0.1)%	(619)	155.5%
Total operating expenses, net	174,954	52.7%	177,921	34.5%	(2,967)	(1.7)%
Operating income (loss)	(71,812)	(21.6)%	37,212	7.2%	(109,024)	*
Interest income (expense), net	602	0.2%	974	0.2%	(372)	(38.2)%
Income (loss) before income taxes	(71,210)	(21.5)%	38,186	7.4%	(109,396)	*
Income tax provision (benefit)	(28,947)	(8.7)%	11,657	2.3%	(40,604)	*
Income (loss) from continuing operations	$ (42,263)	(12.7)%	$ 26,529	5.1%	$ (68,792)	*

* Not Meaningful

Net Sales

The following is an analysis of sales by region:

	December 31,				Dollar and Percentage Change	
	2013		2012		Period to Period	
			(dollars in thousands)			
Regional Analysis						
United States	$ 57,609	17.4%	$ 83,317	16.1%	$ (25,708)	(30.9)%
Asia Pacific	252,199	76.0%	390,995	75.8%	(138,796)	(35.5)%
EMEA [1] and other	21,941	6.6%	41,708	8.1%	(19,767)	(47.4)%
Total	$ 331,749	100.0%	$ 516,020	100.0%	$ (184,271)	(35.7)%

[1] Consists of Europe, the Middle East, and Africa

Total sales decreased in 2013 from 2012 primarily due to lower MOCVD sales as a result of continued industry manufacturing overcapacity and our customers' hesitancy to make new investments as well as lower sales of systems to data storage customers due to customer fabrication facility overcapacity and weak hard drive demand. Our data storage system sales in 2012 were favorably impacted by the replacement of equipment at one of our customer's sites that was damaged by floods in Thailand. By region, net sales decreased in Asia Pacific primarily due to a significant decrease in MOCVD sales in China resulting from industry manufacturing overcapacity. Net sales in the United States and EMEA also decreased due to reduced end-market demand resulting from the weak global economy. We believe that there will continue to be year-to-year variations in the geographic distribution of sales.

Between 2012 and 2013, total orders decreased $60.3 million, or 15%, from $391.9 million to $331.6 million. The decrease was primarily attributable to a 22% decrease in MOCVD system orders due to industry manufacturing overcapacity. Since

hitting a peak in the second quarter of 2011, our orders have slowed dramatically. While ion beam and other data storage system orders increased 8% between 2012 and 2013, hard drive growth is expected to be slow, and our customers have excess manufacturing capacity and have been making only select technology purchases. We continue to experience weak overall market conditions due to overcapacity in all of our markets.

Our book-to-bill ratio in 2013 was 1.0, which was an improvement over 2012, when it was 0.8. Our backlog as of December 31, 2013 was $143.3 million, slightly lower than the ending backlog at December 31, 2012 of $150.2 million. During the year ended December 31, 2013, we recorded backlog adjustments of approximately $6.8 million, consisting of a reduction of $5.6 million related to orders that no longer met our bookings criteria and $1.2 million in foreign currency translation adjustments. For certain sales arrangements we require a deposit for a portion of the sales price prior to manufacturing a system for a customer. As of December 31, 2013 and 2012, we had customer deposits of $27.5 million and $32.7 million, respectively.

Gross Profit

	For the year ended December 31,		Dollar and Percentage Change Period to Period	
	2013	2012		
	(dollars in thousands)			
Gross profit - Total	$ 103,142	$ 215,133	$ (111,991)	(52.1)%
Gross margin	31.1%	41.7%		

Our gross margins decreased in 2013 compared with 2012 primarily due to lower average selling prices, reduced volume, and fewer final acceptances partially offset by cost reductions associated with reduced volumes and reduced expenses in 2013 for slow moving inventory items.

Selling, general, and administrative

Selling, general, and administrative expenses increased primarily from third party professional and consulting fees associated with our accounting review that began in 2012 and which was completed in October 2013, partially offset by a reduction in bonus and profit sharing expenses and increased cost control measures put into place in response to weak market conditions, which resulted in lower personnel-related costs and discretionary expenses. The addition of our ALD business in the fourth quarter of 2013 also contributed to an increase in our selling, general, and administrative expenses.

Research and development

Research and development expense decreased as we sharpened our focus on product development in areas of anticipated high-growth. We selectively funded certain product development activities which resulted in reduced spending for project materials and professional consultants as well as lower personnel and personnel-related costs.

Amortization expense

Amortization expense increased primarily due to additional amortization associated with intangible assets acquired as part of our acquisition of ALD during the fourth quarter of 2013, partially offset by certain intangible assets becoming fully amortized.

Restructuring expense

During 2013, we recorded $1.5 million in personnel severance and related costs principally resulting from the transition from a direct sales presence in Japan to a distributor model and the consolidation of certain sales and administrative functions. During 2012, we took measures to improve profitability, including a reduction in discretionary expenses, realignment of our senior management team, and the consolidation of certain sales and administrative functions. As a result of these actions, we reduced headcount by approximately 50 employees and recorded a restructuring charge of $3.8 million of personnel severance and related costs.

Asset impairment

During 2013, we recorded asset impairment charges of $0.9 million related to certain lab tools we are holding for sale and $0.3 million related to certain other tangible assets. During 2012, we recorded an asset impairment charge related to a license agreement.

Income Taxes

The 2013 net benefit for income taxes included a $3.5 million provision relating to our foreign operations and a $32.4 million benefit relating to our domestic operations. The 2012 provision for income taxes included $8.3 million relating to our foreign operations and $3.4 million relating to our domestic operations. Our 2013 effective tax rate is higher than the 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.

During the fourth quarter of 2012, we determined that we may not meet the criteria required to receive a certain incentive tax rate pursuant to a negotiated tax holiday in one foreign jurisdiction. Although we are continuing to negotiate the criteria for the incentive, for financial reporting purposes we have recorded additional tax provisions of $0.9 million and $4.0 million in 2013 and 2012, respectively, totaling $4.9 million, which represents the cumulative effect of calculating the tax provision using the incentive tax rate as compared to the foreign country's statutory rate. If we successfully renegotiate the incentive criteria, this additional tax provision could be reversed as a future benefit in the period in which the negotiations are finalized.

During 2012 we recorded an income tax expense of $1.9 million related to discontinued operations and a current tax benefit of $2.1 million related to equity-based compensation, neither of which occurred in 2013.

Liquidity and Capital Resources

Our cash and cash equivalents, short-term investments, and restricted cash were as follows:

	December 31,	
	2014	2013
	(in thousands)	
Cash and cash equivalents	$ 270,811	$ 210,799
Short-term investments	120,572	281,538
Restricted cash	539	2,738
Total	$ 391,922	$ 495,075

A portion of our cash and cash equivalents is held by our subsidiaries throughout the world, frequently in each subsidiary's respective functional currency, which may not be the U.S. dollar. At December 31, 2014 and 2013, cash and cash equivalents of $220.5 million and $150.6 million, respectively, were held outside the United States. It is our current intention to permanently reinvest the cash and cash equivalent balances held in Singapore, China, Taiwan, South Korea, and Malaysia, and our current forecasts do not require repatriation of these funds back to the United States. At December 31, 2014, we had $125.2 million in cash held outside the United States on which we would have to pay significant U.S. income taxes to repatriate. Additionally, local government regulations may restrict our ability to move cash balances under certain circumstances. We currently do not expect such regulations and restrictions to impact our ability to make acquisitions, pay vendors, or conduct operations. We believe that our projected cash flow from operations, combined with our cash and short term investments, will be sufficient to meet our projected working capital requirements, contractual obligations, and other cash flow needs for the next twelve months.

At December 31, 2014 and 2013, our short-term investments were held in the United States and restricted cash was in Germany, which serves as collateral for bank guarantees that provide financial assurance that we will fulfill certain customer or lease 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.

A summary of the cash flow activity for the year ended December 31, 2014 and 2013 was as follows:

Cash Flows from Operating Activities

	December 31,	
	2014	**2013**
	(in thousands)	
Net loss	$ (66,940)	$ (42,263)
Non-cash items:		
Depreciation and amortization	24,573	18,425
Deferred income taxes	(11,330)	(12,264)
Share-based compensation	18,813	13,130
Impairment of long-lived assets	58,170	1,220
Change in contingent consideration	(29,368)	829
Other	(6,505)	1,179
Changes in operating assets and liabilities	54,656	20,471
Net cash provided by operating activities	$ 42,069	$ 727

Net cash provided by operations was $42.1 million in fiscal year 2014, and was due to the net loss of $66.9 million, adjustments for non-cash items of $54.3 million, and an increase in cash flow from operating activities due to changes in operating assets and liabilities of $54.7 million. The changes in operating assets and liabilities was largely attributable to an increase in customer deposits and deferred revenue and income taxes payable, net, offset by an increase in accounts receivable.

Net cash provided by operations was $0.7 million in fiscal year 2013, and was due to the net loss of $42.3 million, adjustments for non-cash items of $22.5 million, and an increase in cash flow from operating activities due to changes in operating assets and liabilities of $20.5 million. The changes in operating assets and liabilities was largely attributable to decreases in accounts receivable offset by decreases in customer deposits and deferred revenue and income taxes payable, net.

Cash Flows from Investing Activities

	December 31,	
	2014	**2013**
	(in thousands)	
Acquisitions of businesses, net of cash acquired	$ (144,069)	$ (71,488)
Changes in investments, net	160,539	(89,454)
Capital expenditures	(15,588)	(9,174)
Proceeds from sale of lab tools	9,259	4,440
Other	(2,038)	(2,380)
Net cash provided by (used in) investing activities	$ 8,103	$ (168,056)

The cash provided by investing activities in 2014 was primarily attributable to net sales of marketable securities and sales of lab tools, partially offset by our purchase of PSP, net of cash acquired, and other capital expenditures. Our cash used in investing activities in 2013 was primarily driven by our purchase of ALD, net of cash acquired, net purchases of short-term investments, and other capital expenditures. Refer to Note 5, “Business Combinations” for additional information on the acquisitions of PSP and ALD.

Cash Flows from Financing Activities

During 2014, cash provided by financing activities of $9.7 million was primarily attributable to net cash received from stock activity related to employee share-based compensation programs. During 2013, cash used in financing activities of $5.8 million was primarily attributable to $5.0 million related to the payment of a portion of the contingent consideration from our acquisition of ALD and net cash payments from stock activity related to employee share-based compensation programs. Refer to Note 5, “Business Combinations” for additional information on the contingent consideration related to our ALD acquisition.

Contractual Obligations and Commitments

We have commitments under certain contractual arrangements to make future payments for goods and services. These contractual arrangements secure the rights to various assets and services to be used in the future in the normal course of business. We expect to fund these contractual arrangements with cash generated from operations in the normal course of business.

The following table summarizes our contractual arrangements at December 31, 2014 and the timing and effect that those commitments are expected to have on our liquidity and cash flow in future periods. The effect of unrecognized tax benefits , which total $1.4 million at December 31, 2014, have been excluded from the table since the Company is unable to reasonably estimate the period of cash settlement with the respective tax authorities.

	Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
			(in thousands)		
Long-term debt	$ 1,847	$ 314	$ 708	$ 825	$ —
Interest on debt	395	135	190	70	—
Operating leases	11,188	2,322	4,416	1,750	2,700
Bank guarantees	45,458	45,458	—	—	—
Purchase commitments [1]	112,421	112,421	—	—	—
Total	$ 171,309	$ 160,650	$ 5,314	$ 2,645	$ 2,700

(1) Purchase commitments are primarily for inventory used in manufacturing our products. We generally do not enter into purchase commitments extending beyond one year. We have $12.7 million of offsetting supplier deposits against these purchase commitments as of December 31, 2014.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources other than operating leases, bank guarantees, and purchase commitments disclosed in the preceding “Contractual Obligations and Commitments” table.

Application of Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements require a high degree of judgment, either in the application and interpretation of existing accounting literature or in the development of estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. On an ongoing basis, we evaluate our estimates and judgments based on historical experience as well as other factors that we believe to be reasonable under the circumstances. The results of our evaluation form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates may change in the future if underlying assumptions or factors change, and actual results may differ from these estimates.

We consider the following significant accounting policies to be critical because of their complexity and the high degree of judgment involved in implementing them.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, collectability is reasonably assured, and, for system sales, we have received customer acceptance or we have otherwise objectively demonstrated that the delivered system meets all of the agreed-to customer specifications. Each sales arrangement may contain commercial terms that differ from other arrangements. In addition, we frequently enter into contracts that contain multiple deliverables. Judgment is required to

properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria have been met in order to recognize revenue in the appropriate accounting period. The maximum revenue we recognize on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on our financial condition and results of operations. We generally recognize revenue related to sales of components and spare parts upon shipment. We generally recognize revenue related to maintenance and service contracts ratably over the applicable contract term. See Note 1, "Significant Accounting Policies," in the Notes to the Consolidated Financial Statements for a description of our revenue recognition policy.

Inventory Valuation

Inventories are stated at the lower of cost or market using standard costs that approximate actual costs on a first-in, first-out basis. Each quarter we assess the valuation and recoverability of all inventories: materials (raw materials, spare parts, and service inventory); work-in-process; and finished goods. Obsolete inventory or inventory in excess of our estimated usage requirements is written down to its estimated market value if less than cost. We evaluate usage requirements by analyzing historical and anticipated demand, and anticipated demand is estimated based upon current economic conditions, utilization requirements related to current backlog, current sales trends, and other qualitative factors. Unanticipated changes in demand for our products may require a write down of inventory that could materially affect our operating results.

Warranty Costs

Our warranties are typically valid for one year from the date of final acceptance. 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. Estimated warranty costs are determined by analyzing specific product and historical configuration statistics and regional warranty support costs. Our warranty obligation is affected by product failure rates, material usage, and labor costs incurred in correcting product failures during the warranty period. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required.

Goodwill and Intangible Assets

Goodwill is tested for impairment at least annually in the fourth quarter of our fiscal year. We may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, and, if so, we then apply the two-step impairment test. The two-step impairment test first compares the fair value of our reporting units to their carrying amount (i.e., book value). If the fair value of the reporting unit exceeds its carrying amount, goodwill is not impaired and we are not required to perform further testing. If the carrying amount of the reporting unit exceeds its fair value, we determine the implied fair value of the reporting unit's goodwill and if the carrying amount of the reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

We determine the fair value of our reporting units based on a discounted future cash flow approach since market prices are not available for our reporting units. Under this approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include the revenue growth rates and operating profit margins that are used to project future cash flows, working capital requirements, residual growth rates, discount rates, and future economic and market conditions. We base our fair value estimates on assumptions that are consistent with information used by the business for planning purposes and that we believe to be reasonable; however, actual future results could differ from those estimates. Changes in judgments could materially affect the value of the reporting unit. We reconcile the aggregate fair value of our reporting units to our adjusted market capitalization as a supporting calculation. The adjusted market capitalization is calculated by multiplying the average share price of our common stock for the last ten trading days prior to the measurement date by the number of outstanding common shares and adding a control premium.

The carrying values of indefinite-lived intangible assets are reviewed for recoverability on a quarterly basis. The facts and circumstances considered include the recoverability of the cost of other intangible assets from future cash flows to be derived from the use of the asset. It is not possible for us to predict the likelihood of any possible future impairments or, if such an impairment were to occur, the magnitude of any impairment.

Intangible assets with finite useful lives, including purchased technology, customer-related intangible assets, patents, trademarks, covenants not-to-compete, and software licenses, are subject to amortization over the expected period of economic benefit to us. We evaluate whether events or circumstances have occurred that warrant a revision to the remaining useful lives of intangible assets. In cases where a revision is deemed appropriate, the remaining carrying amounts of the intangible assets are amortized over the revised remaining useful life.

Accounting for Business Combinations

The allocation of the purchase price for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values. The estimates we make include expected cash flows, expected cost savings, and the appropriate weighted average cost of capital. We complete these assessments as soon as practical after the acquisition closing dates. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill.

Fair Value of Financial Instruments

The measurement of fair value for our financial instruments is based on the authoritative guidance which establishes a fair value hierarchy that is based on three levels of inputs and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See Note 3, “Fair Value Measurements,” in the Notes to the Consolidated Financial Statements for additional information.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carry forwards. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Realization of our net deferred tax assets is dependent on future taxable income.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. We reflect changes in recognition or measurement in a period in which the change in judgment occurs. We record interest and penalties related to uncertain tax positions in income tax expense.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial condition.

Accounting for Share-Based Compensation

We account for stock-based awards granted to employees for services based on the fair value of those awards. We use the Black-Scholes option-pricing model to compute the estimated fair value of option awards. The Black-Scholes model includes assumptions regarding expected volatility, expected term, and risk-free interest rates. These assumptions reflect our best estimates, but these items involve uncertainties based on market and other conditions outside of our control. As a result, if other assumptions had been used, stock-based compensation expense could have been materially affected. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially affected in future years.

We have granted performance share awards to senior executives where the number and, in some instances, the timing of the vesting of restricted shares ultimately received by the senior executives depends on our performance, as measured against specified targets. We reevaluate the expected target achievement each reporting period until the conclusion of the performance period and recognize the impact of any change in estimate in the period of change.

We estimate forfeitures of share based awards using our historical experience, which is adjusted over the requisite service period based on actual forfeitures.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09: *Revenue from Contracts with Customers* . The amendments in this ASU require that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard outlines a five-step model to make the revenue recognition determination and requires new financial statement disclosures. The standard is effective for interim and annual periods beginning after December 15, 2016 and allows entities to choose among different transition alternatives. We are evaluating the impact of adopting the standard on our consolidated financial statements and related financial statement disclosures and we have not yet determined which method of adoption will be selected.

We have evaluated other pronouncements recently issued but not yet adopted, and we do not believe the adoption of these pronouncements will have a material impact on the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates primarily relates to our investment portfolio. We centrally manage our investment portfolios considering investment opportunities and risks, tax consequences, and overall financing strategies. Our investment portfolio includes fixed-income securities with a fair value of approximately $120.6 million as of December 31, 2014. These securities are subject to interest rate risk and, based on our investment portfolio as of December 31, 2014, a 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of $0.7 million. While an increase in interest rates may reduce the fair value of the investment portfolio, we will not realize the losses in the Consolidated Statements of Operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary.

Currency Exchange Risk

We conduct business on a worldwide basis and, as such, a portion of our revenues, earnings, and net investments in foreign affiliates is exposed to changes in currency exchange rates. The economic impact of currency exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions, and other factors. These changes, if material, could cause us to adjust our financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.

We manage our risks and exposures to currency exchange rates through the use of derivative financial instruments (e.g., forward contracts). We only use derivative financial instruments in the context of hedging and do not use them for speculative purposes. During fiscal 2014 and 2013, we did not designate our foreign exchange derivatives as hedges. Accordingly, all foreign exchange derivatives are recorded in our Consolidated Balance Sheets at fair value and changes in fair value from these contracts are recorded in “Other, net” in our Consolidated Statements of Operations.

Our net sales to customers located outside of the United States represented approximately 89%, 83% and 84% of our total net sales in 2014, 2013 and 2012, respectively. We expect that net sales to customers outside the United States will continue to represent a large percentage of our total net sales. Our net sales denominated in currencies other than the U.S. dollar represented approximately 8%, 4%, and 4% of total net sales in 2014, 2013, and 2012, respectively.

A 10% change in foreign exchange rates would have an immaterial impact on the consolidated results of operations.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements and Financial Statement Schedule filed as part of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

Our principal executive and financial officers have evaluated and concluded that our disclosure controls and procedures are effective as of December 31, 2014. The disclosure controls and procedures are designed to ensure that the information required to be disclosed in this report filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure.

Our principal executive and financial officers are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed and put into effect to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Using the criteria established in the Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), Management has evaluated, assessed, and concluded that internal control over financial reporting is effective as of December 31, 2014.

We acquired Solid State Equipment Holdings LLC (now known as Veeco Precision Surface Processing ("PSP") during the quarter ended December 31, 2014, and the results of PSP from the acquisition date through December 31, 2014 are included in our 2014 consolidated financial statements. The results of PSP constituted 18 percent and 20 percent of total and net assets, respectively, as of December 31, 2014, and 2 percent and 4 percent of net sales and net loss before taxes, respectively, for the year then ended. We have excluded PSP from our annual assessment of and conclusion on the effectiveness of our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2014, there were no changes in internal control that have materially affected or are reasonably likely to materially affect internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Veeco Instruments Inc.

We have audited Veeco Instruments Inc.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Solid State Equipment Holdings LLC, which is included in the 2014 consolidated financial statements of Veeco Instruments Inc. and constituted 18 percent and 20 percent of total and net assets, respectively, as of December 31, 2014 and 2 percent and 4 percent of net sales and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Solid State Equipment Holdings LLC.

In our opinion, Veeco Instruments Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Veeco Instruments Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 24, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York
February 24, 2015

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item that will appear under the headings " Corporate Governance ," " Executive Officers ," and "Section 16 (a) Reporting Compliance" in the definitive proxy statement to be filed with the SEC relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

We have adopted a Code of Ethics for Senior Officers (the "Code") which applies to our chief executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of the Code can be found on our website (www.veeco.com). We intend to disclose on our website the nature of any future amendments to and waivers of the Code that apply to the chief executive officer, principal financial officer, principal accounting officer or persons performing similar functions. We have also adopted a Code of Business Conduct which applies to all of our employees, including those listed above, as well as to our directors. A copy of the Code of Business Conduct can be found on our website (www.veeco.com). The website address above is intended to be an inactive, textual reference only. None of the material on this website is part of this report.

Item 11. Executive Compensation

Information required by this Item that will appear under the heading "Executive Compensation" in the definitive proxy statement to be filed with the SEC relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item that will appear under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the definitive proxy statement to be filed with the SEC relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item that will appear under the headings " Certain Relationships and Related Transactions " and " Independence of the Board of Directors " in the definitive proxy statement to be filed with the SEC relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information required by this Item that will appear under the heading "Proposal 3 — Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm" in the definitive proxy statement to be filed with the SEC relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) (1) The Registrant's financial statements together with a separate table of contents are annexed hereto
(2) Financial Statement Schedules are listed in the separate table of contents annexed hereto.
(3) Exhibits

Unless otherwise indicated, each of the following exhibits has been previously filed with the Securities and Exchange Commission by the Company under File No. 0-16244.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Exhibit	Filing Date	Filed or Furnished Herewith
2.1	Securities Purchase Agreement, dated December 4, 2014, by and among Solid State Equipment Holdings LLC, certain securityholders thereof, Veeco Instruments Inc. and certain other parties thereto.				X
2.2	Agreement and Plan of Merger, dated September 18, 2013, by and among Veeco, Veeco Wyoming Inc., Synos Technology, Inc., certain stockholders of Synos Technology, Inc., and Shareholder Representative Services LLC.	10-K	2.1	2/28/2014	
3.1	Amended and Restated Certificate of Incorporation of Veeco dated December 1, 1994, as amended June 2, 1997 and July 25, 1997.	10-Q	3.1	8/14/1997	
3.2	Amendment to Certificate of Incorporation of Veeco dated May 29, 1998.	10-K	3.2	3/14/2001	
3.3	Amendment to Certificate of Incorporation of Veeco dated May 5, 2000.	10-Q	3.1	8/14/2000	
3.4	Certificate of Designation, Preferences, and Rights of Series A Junior Participating Preferred Stock of Veeco.	10-Q	3.1	5/9/2001	
3.5	Amendment to Certificate of Incorporation of Veeco dated May 16, 2002.	10-Q	3.1	10/26/2009	
3.6	Amendment to Certificate of Incorporation of Veeco dated May 14, 2010.	10-K	3.8	2/24/2011	
3.7	Fourth Amended and Restated Bylaws of Veeco, effective October 23, 2008.	8-K	3.1	10/27/2008	
3.8	Amendment No. 1 to the Fourth Amended and Restated Bylaws of Veeco effective May 20, 2010.	8-K	3.1	5/26/2010	
3.9	Amendment No. 2 to the Fourth Amended and Restated Bylaws of Veeco effective October 20, 2011.	8-K	3.1	10/24/2011	
10.1	Loan Agreement dated as of December 15, 1999 between Applied Epi, Inc. and Jackson National Life Insurance Company.	10-Q	10.2	11/14/2001	
10.2	Amendment to Loan Documents effective as of September 17, 2001 between Applied Epi, Inc. and Jackson National Life Insurance Company (executed in June 2002).	10-Q	10.2	8/14/2002	
10.3	Promissory Note dated as of December 15, 1999 issued by Applied Epi, Inc. to Jackson National Life Insurance Company.	10-Q	10.3	11/14/2001	
10.4*	Form of Indemnification Agreement entered into between Veeco and each of its directors and executive officers.	8-K	10.1	10/23/2006	
10.5*	Veeco Amended and Restated 2000 Stock Incentive Plan, effective July 20, 2006.	10-Q	10.4	8/4/2006	
10.6*	Amendment No. 1 effective April 18, 2007 (ratified by the Board August 7, 2007) to Veeco Amended and Restated 2000 Stock Incentive Plan.	10-Q	10.1	8/7/2007	
10.7*	Amendment No. 2 dated January 22, 2009 to Veeco Amended and Restated 2000 Stock Incentive Plan.	10-K	10.41	3/2/2009	
10.8*	Form of Restricted Stock Agreement pursuant to the Veeco 2000 Stock Incentive Plan, effective November 2005.	10-Q	10.3	11/2/2005	

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
10.9*	Form of Notice of Restricted Stock Award and related terms and conditions pursuant to the Veeco 2000 Stock Incentive Plan, effective June 2006.	10-Q	10.3	11/6/2006	
10.10*	Veeco Amended and Restated 2010 Stock Incentive Plan, effective May 14, 2010.	Def 14A	Appendix A	11/4/2013	
10.11*	Form of 2010 Stock Incentive Plan Stock Option Agreement (2012 rev.).	10-Q	10.2	7/27/2012	
10.12*	Form of 2010 Stock Incentive Plan Restricted Stock Agreement (2012 rev.).	10-Q	10.3	7/27/2012	
10.13*	Form of 2010 Stock Incentive Plan Restricted Stock Unit Agreement (2012 rev.).	10-Q	10.4	7/27/2012	
10.14*	Form of 2010 Stock Incentive Plan Restricted Stock Agreement (Non-Employee Director) (2011 rev.).	10-Q	10.5	7/27/2012	
10.15*	Form of 2010 Stock Incentive Plan Restricted Stock Agreement (Performance Based) (2012 rev.).	10-Q	10.6	7/27/2012	
10.16*	Form of Notice of Performance Share Award and related terms and conditions pursuant to the Veeco 2010 Stock Incentive Plan, effective June 2014.	10-Q	10.2	7/31/2014	
10.17*	Veeco 2013 Inducement Stock Incentive Plan, effective September 26, 2013.	10-Q	10.1	11/4/2013	
10.18*	Form of 2013 Inducement Stock Incentive Plan Stock Option Agreement.	10-Q	10.2	11/4/2013	
10.19*	Form of 2013 Inducement Stock Incentive Plan Restricted Stock Unit Agreement.	10-Q	10.3	11/4/2013	
10.20*	Veeco Performance-Based Restricted Stock 2010.	10-Q	10.2	7/29/2010	
10.21*	Veeco Amended and Restated Senior Executive Change in Control Policy, effective as of January 1, 2014.	10-K	10.22	2/28/2014	
10.22*	Amendment effective December 31, 2008 to Employment Agreement between Veeco and John R. Peeler.	10-K	10.38	3/2/2009	
10.23*	Second Amendment effective June 11, 2010 to Employment Agreement between Veeco and John R. Peeler.	10-Q	10.1	7/29/2010	
10.24*	Third Amendment effective April 27, 2012 to Employment Agreement between Veeco and John R. Peeler.	10-Q	10.2	5/9/2012	
10.25*	Amendment dated June 12, 2014 to Employment Agreement between Veeco and John R. Peeler.	10-Q	10.3	7/31/2014	
10.26*	Letter Agreement dated April 8, 2014 between Veeco and Shubham Maheshwari.	10-Q	10.1	7/31/2014	
10.27*	Letter Agreement dated January 21, 2004 between Veeco and John P. Kiernan.	10-K	10.38	3/12/2004	
10.28*	Amendment effective June 9, 2006 to Letter Agreement between Veeco and John P. Kiernan.	10-Q	10.3	8/4/2006	
10.29*	Amendment effective December 31, 2008 to Letter Agreement between Veeco and John P. Kiernan.	10-K	10.40	3/2/2009	
10.30*	Letter agreement effective as of June 19, 2009 between Veeco and John P. Kiernan.	10-Q	10.2	7/30/2009	
10.31*	Letter Agreement dated January 30, 2012 between Veeco and Dr. William J. Miller.	10-K	10.30	2/22/2012	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
21.1	Subsidiaries of the Registrant.				X
23.1	Consent of Ernst & Young LLP.				X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a—14(a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.				X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a—14(a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.				X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.				X
101.INS	XBRL Instance.				**
101.XSD	XBRL Schema.				**
101.PRE	XBRL Presentation.				**
101.CAL	XBRL Calculation.				**
101.DEF	XBRL Definition.				**
101.LAB	XBRL Label.				**

* Indicates a management contract or compensatory plan or arrangement, as required by Item 15(a) (3) of Form 10-K.

** Filed herewith electronically

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2015.

Veeco Instruments Inc.

By: /S/ JOHN R. PEELER
John R. Peeler
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on February 24, 2015.

Signature	Title
/s/ JOHN R. PEELER John R. Peeler	Chairman and Chief Executive Officer (principal executive officer)
/s/ SHUBHAM MAHESHWARI Shubham Maheshwari	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ JOHN P. KIERNAN John P. Kiernan	Senior Vice President, Finance, Chief Accounting Officer, Corporate Controller and Treasurer (principal accounting officer)
/s/ EDWARD H. BRAUN Edward H. Braun	Director
/s/ RICHARD A. D’AMORE Richard A. D’Amore	Director
/s/ GORDON HUNTER Gordon Hunter	Director
/s/ KEITH D. JACKSON Keith D. Jackson	Director
/s/ ROGER D. MCDANIEL Roger D. McDaniel	Director
/s/ PETER J. SIMONE Peter J. Simone	Director

Veeco Instruments Inc. and Subsidiaries

Index to Consolidated Financial Statements and Financial Statement Schedule

	Page
Report of Independent Registered Public Accounting Firm on Financial Statements	F-2
Consolidated Balance Sheets as of December 31, 2014 and 2013	F-3
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	F-4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012	F-5
Consolidated Statements of Equity for the years ended December 31, 2014, 2013 and 2012	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	F-7
Notes to Consolidated Financial Statements	F-8
Schedule II—Valuation and Qualifying Accounts	S-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Veeco Instruments Inc.

We have audited the accompanying consolidated balance sheets of Veeco Instruments Inc. (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Veeco Instruments Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Veeco Instruments Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York
February 24, 2015

Veeco Instruments Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share amounts)

	December 31,	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	$ 270,811	$ 210,799
Short-term investments	120,572	281,538
Restricted cash	539	2,738
Accounts receivable, net	60,085	23,823
Inventories	61,471	59,726
Deferred cost of sales	5,076	724
Prepaid expenses and other current assets	23,132	22,579
Assets held for sale	6,000	—
Deferred income taxes	7,976	11,716
Total current assets	555,662	613,643
Property, plant and equipment at cost, net	78,752	89,139
Goodwill	114,959	91,348
Deferred income taxes	1,180	397
Intangible assets, net	159,308	114,716
Other assets	19,594	38,726
Total assets	$ 929,455	$ 947,969
Liabilities and stockholders' equity		
Current liabilities :		
Accounts payable	$ 18,111	$ 35,755
Accrued expenses and other current liabilities	48,418	51,084
Customer deposits and deferred revenue	96,004	34,754
Income taxes payable	5,441	6,149
Deferred income taxes	120	159
Current portion of long-term debt	314	290
Total current liabilities	168,408	128,191
Deferred income taxes	16,397	28,052
Long-term debt	1,533	1,847
Other liabilities	4,185	9,649
Total liabilities	190,523	167,739
Stockholders ' Equity:		
Preferred stock, 500,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01par value, 120,000,000 shares authorized; 40,360,069 and 39,666,195 shares issued and outstanding at December 31,2014 and 2013, respectively	404	397
Additional paid-in capital	750,139	721,352
Retained earnings (accumulated deficit)	(13,080)	53,860
Accumulated other comprehensive income	1,469	4,621
Total stockholders' equity	738,932	780,230
Total liabilities and stockholders' equity	$ 929,455	$ 947,969

See accompanying Notes to the Consolidated Financial Statements.

Veeco Instruments Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share amounts)

	For the year ended December 31,		
	2014	2013	2012
Net sales	$ 392,873	$ 331,749	$ 516,020
Cost of sales	257,991	228,607	300,887
Gross profit	134,882	103,142	215,133
Operating expenses, net:			
Selling, general, and administrative	89,760	85,486	73,110
Research and development	81,171	81,424	95,153
Amortization	13,146	5,527	4,908
Restructuring	4,394	1,485	3,813
Asset impairment	58,170	1,220	1,335
Changes in contingent consideration	(29,368)	829	—
Other, net	(3,182)	(1,017)	(398)
Total operating expenses, net	214,091	174,954	177,921
Operating income (loss)	(79,209)	(71,812)	37,212
Interest income	1,570	1,200	2,476
Interest expense	(715)	(598)	(1,502)
Income (loss) from continuing operations before income taxes	(78,354)	(71,210)	38,186
Income tax provision (benefit)	(11,414)	(28,947)	11,657
Income (loss) from continuing operations	(66,940)	(42,263)	26,529
Discontinued operations :			
Income from discontinued operations before income taxes	—	—	6,269
Income tax provision	—	—	1,870
Income from discontinued operations	—	—	4,399
Net income (loss)	$ (66,940)	$ (42,263)	$ 30,928
Basic income (loss) per common share:			
Continuing operations	$ (1.70)	$ (1.09)	$ 0.69
Discontinued operations	—	—	0.11
Net income (loss)	$ (1.70)	$ (1.09)	$ 0.80
Diluted income (loss) per common share:			
Continuing operations	$ (1.70)	$ (1.09)	$ 0.68
Discontinued operations	—	—	0.11
Net income (loss)	$ (1.70)	$ (1.09)	$ 0.79
Weighted average number of shares:			
Basic	39,350	38,807	38,477
Diluted	39,350	38,807	39,051

See accompanying Notes to the Consolidated Financial Statements.

Veeco Instruments Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	For the year ended December 31,		
	2014	2013	2012
Net income (loss)	$ (66,940)	$ (42,263)	$ 30,928
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on available-for-sale securities	51	34	(118)
Benefit (provision) for income taxes	—	11	50
Less: Reclassification adjustments included in net income (loss)	(65)	(61)	(24)
Net unrealized loss on available-for-sale securities	(14)	(16)	(92)
Minimum pension liability	(145)	125	(216)
Benefit (provision) for income taxes	—	(86)	79
Net minimum pension liability	(145)	39	(137)
Foreign currency translation	149	(1,322)	(1,071)
Benefit (provision) for income taxes	—	(53)	683
Less: Reclassification adjustments included in net income (loss)	(3,142)	—	—
Net foreign currency translation	(2,993)	(1,375)	(388)
Other comprehensive income (loss), net of tax	(3,152)	(1,352)	(617)
Comprehensive income (loss)	$ (70,092)	$ (43,615)	$ 30,311

See accompanying Notes to the Consolidated Financial Statements.

Veeco Instruments Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in thousands)

	Common Stock		Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance at December 31, 2011	38,768	$ 435	$ (200,175)	$ 688,353	$ 265,317	$ 6,590	$ 760,520
Net income	—	—	—	—	30,928	—	30,928
Other comprehensive loss , net of tax	—	—	—	—	—	(617)	(617)
Share-based compensation expense	—	—	—	14,268	—	—	14,268
Net issuance under employee stock plans	560	11	—	5,792	—	—	5,803
Retirement of treasury stock	—	(53)	200,175	—	(200,122)	—	—
Prior period debt conversion adjustment	—	—	—	310	—	—	310
Balance at December 31, 2012	39,328	393	—	708,723	96,123	5,973	811,212
Net loss	—	—	—	—	(42,263)	—	(42,263)
Other comprehensive loss, net of tax	—	—	—	—	—	(1,352)	(1,352)
Share-based compensation expense	—	—	—	13,130	—	—	13,130
Net issuance under employee stock plans	338	4	—	(501)	—	—	(497)
Balance at December 31, 2013	39,666	397	—	721,352	53,860	4,621	780,230
Net income	—	—	—	—	(66,940)	—	(66,940)
Other comprehensive loss, net of tax	—	—	—	—	—	(3,152)	(3,152)
Share-based compensation expense	—	—	—	18,813	—	—	18,813
Net issuance under employee stock plans	694	7	—	9,974	—	—	9,981
Balance as of December 31, 2014	40,360	$ 404	$ —	$ 750,139	$ (13,080)	$ 1,469	$ 738,932

See accompanying Notes to the Consolidated Financial Statements.

Veeco Instruments Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	2014	2013	2012
Cash Flows from Operating Activities			
Net income (loss)	$ (66,940)	$ (42,263)	$ 30,928
Adjustments to reconcile net income (loss) to net cash from operating activities :			
Depreciation and amortization	24,573	18,425	16,192
Deferred income taxes	(11,330)	(12,264)	(340)
Share-based compensation expense	18,813	13,130	14,268
Excess tax benefits from share-based compensation	—	—	(2,119)
Provision (recovery) for bad debts	(1,814)	1,946	198
Impairment of long-lived assets	58,170	1,220	1,335
Gain on sale of lab tools	(1,549)	(767)	—
Gain on disposal of segment	—	—	(4,112)
Gain on cumulative translation adjustment	(3,142)	—	—
Change in contingent consideration	(29,368)	829	—
Changes in operating assets and liabilities :			
Accounts receivable	(25,390)	36,898	31,017
Inventories and deferred cost of sales	6,513	2,753	53,937
Prepaid expenses and other current assets	(2,245)	842	8,524
Accounts payable and accrued expenses	(5,534)	7,542	(12,106)
Customer deposits and deferred revenue	55,536	(17,329)	(34,227)
Income taxes receivable and payable, net	20,279	(12,734)	1,853
Other, net	5,497	2,499	9,253
Discontinued operations	—	—	(2,638)
Net cash provided by operating activities	42,069	727	111,963
Cash Flows from Investing Activities			
Acquisitions of businesses, net of cash acquired	(144,069)	(71,488)	—
Capital expenditures	(15,588)	(9,174)	(24,994)
Proceeds from the liquidation of investments	318,276	499,645	244,929
Payments for purchases of investments	(157,737)	(589,099)	(165,080)
Payments for purchase of cost method investment	(2,388)	(2,391)	(10,341)
Proceeds from sale of assets from discontinued segment	—	—	3,758
Proceeds from sale of lab tools	9,259	4,440	—
Other	350	11	49
Net cash provided by (used in) investing activities	8,103	(168,056)	48,321
Cash Flows from Financing Activities			
Proceeds from stock option exercises	12,056	2,199	5,409
Restricted stock tax withholdings	(2,075)	(2,696)	(1,725)
Excess tax benefits from equity-based compensation	—	—	2,119
Contingent consideration payments	—	(5,000)	—
Repayments of long-term debt	(290)	(269)	(248)
Net cash provided by (used in) financing activities	9,691	(5,766)	5,555
Effect of exchange rate changes on cash and cash equivalents	149	(663)	796
Net increase (decrease) in cash and cash equivalents	60,012	(173,758)	166,635
Cash and cash equivalents as of beginning of period	210,799	384,557	217,922
Cash and cash equivalents as of end of period	$ 270,811	$ 210,799	$ 384,557
Supplemental disclosure of cash flow information			
Interest paid	$ 159	$ 357	$ 209
Income taxes paid	3,320	8,001	11,566

See accompanying Notes to the Consolidated Financial Statements.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1 — Significant Accounting Policies

(a) Description of Business

Veeco Instruments Inc. (together with its consolidated subsidiaries, "Veeco," or the "Company") operates in a single segment: the design, development, manufacture, and support of thin film process equipment primarily sold to make electronic devices including light emitting diodes ("LED"s), power electronics, wireless devices, hard disk drives, and semiconductors.

(b) Basis of Presentation

The accompanying audited Consolidated Financial Statements of the Company have been prepared in accordance with United States generally accepted accounting principles (GAAP). The Company reports interim quarters on a 13-week basis ending on the last Sunday of each period, which is determined at the start of each year. The Company's fourth quarter always ends on the last day of the calendar year, December 31. During 2014 the interim quarters ended on March 30, June 29 and September 28, and during 2013 the interim quarters ended on March 31, June 30 and September 29. The Company reports these interim quarters as March 31, June 30 and September 30 in its interim consolidated financial statements.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results. Significant items subject to such estimates and assumptions include: (i) the best estimate of selling price for the Company's products and services; (ii) allowances for doubtful accounts and inventory obsolescence; (iii) the useful lives and expected future cash flows of property, plant, and equipment and identifiable intangible assets; (iv) the fair value of the Company's reporting units and related goodwill; (v) the fair value, less cost to sell, of assets held for sale; (vi) investment valuations and the valuation of derivatives, deferred tax assets, and assets acquired in business combinations; (vii) the recoverability of long lived assets; (viii) liabilities for product warranty and legal contingencies; (ix) share-based compensation; and (x) income tax uncertainties. Actual results could differ from those estimates.

(d) Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. Companies acquired during each reporting period are reflected in the results of the Company effective from their respective dates of acquisition through the end of the reporting period.

(e) Foreign Currencies

Assets and liabilities of the Company's foreign subsidiaries that operate using local functional currencies are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using monthly average exchange rates. Adjustments arising from the translation of the foreign currency financial statements of the Company's subsidiaries into U.S. dollars, including intercompany transactions of a long-term nature, are reported as currency translation adjustments in "Accumulated other comprehensive income" in the Consolidated Balance Sheets. Foreign currency transaction gains or losses are included in "Other, net" in the Consolidated Statements of Operations.

(f) Revenue Recognition

The Company recognizes 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 the Company's 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, the arrangement is split into separate units of accounting if the individually delivered elements have value to the customer on a standalone basis. The Company also evaluates whether multiple transactions with the same customer or related parties should be considered part of a multiple element arrangement, based on an assessment of 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 one another. When there are separate units of accounting, the Company allocates 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 the best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. The Company uses BESP for the majority of the elements in its arrangements.

The Company considers many facts when evaluating each of its sales arrangements to determine the timing of revenue recognition including its contractual obligations, the customer’s creditworthiness, and the nature of the customer’s post-delivery acceptance provisions. The Company’s system sales arrangements, including certain upgrades, generally include field acceptance provisions that may include functional or mechanical test procedures. For the majority of the arrangements, a customer source inspection of the system is performed in the Company’s 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 are performed at the customer’s site prior to final acceptance of the system. As such, the Company objectively demonstrates that the criteria specified in the contractual acceptance provisions are achieved prior to delivery and, therefore, revenue is recognized upon system 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 the Company 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.

The Company’s system sales arrangements, including certain upgrades, generally do not contain provisions for right of return, forfeiture, refund, or other purchase price concession. In the rare instances where such provisions are included, all revenue is deferred until such rights expire. The sales arrangements 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. The Company has a demonstrated history of consistently completing installations in a timely manner and can reliably estimate the costs of such activities. Most customers engage the Company to perform the installation services, although there are other third-party providers with sufficient knowledge who could complete these services. Based on these factors, installation is deemed to be inconsequential or perfunctory relative to the system sale as a whole, and as a result, installation service is not considered a separate element of the arrangement. As such, the Company accrues the cost of the installation at the time of revenue recognition for the system.

In many cases the Company’s 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.

The Company’s contractual terms with customers in Japan generally specify that title and risk and rewards of ownership transfer upon customer acceptance. As a result, for customers in Japan, revenue is recognized upon the receipt of written customer acceptance. During the fourth quarter of fiscal 2013, the Company began using a distributor for almost all of its product and service sales to customers in Japan. Title passes to the distributor upon shipment, however, due to customary local business practices, the risk and rewards of ownership of the system transfers to the end-customers upon their acceptance. As such, the Company recognizes revenue upon receipt of written acceptance from the end customer.

The Company recognizes revenue related to maintenance and service contracts ratably over the applicable contract term. The Company recognizes revenue from the sales of components, spare parts, and specified service engagements at the time of delivery in accordance with the terms of the applicable sales arrangement.

Incremental direct costs incurred related to the acquisition of a customer contract, such as sales commissions, are expensed as incurred, even if the related revenue is deferred in accordance with the above policy.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(g) Warranty Costs

The Company typically provides standard warranty coverage on its systems for one year from the date of final acceptance by providing labor and parts necessary to repair the systems during the warranty period. The Company accounts for the estimated warranty cost when revenue is recognized on the related system. Warranty cost is included in “Cost of sales” in the Consolidated Statements of Operations. The estimated warranty cost is based on the Company’s historical experience with its systems and regional labor costs. The Company calculates the average service hours by region and parts expense per system utilizing actual service records to determine the estimated warranty charge. The Company updates its warranty estimates on a semiannual basis when the actual product performance and/or field expense differs from original estimates.

(h) Shipping and Handling Costs

Shipping and handling costs are expenses incurred to move, package and prepare the Company’s products for shipment and to move the products to a customer’s designated location. These costs are generally comprised of payments to third-party shippers. Shipping and handling costs are included in “Cost of sales” in the Consolidated Statements of Operations.

(i) Research and Development Costs

Research and development costs are expensed as incurred and include charges for the development of new technology and the transition of existing technology into new products or services.

(j) Advertising Expense

The cost of advertising is expensed as incurred and totaled $0.6 million, $0.5 million, and $0.8 million during 2014, 2013 and 2012, respectively.

(k) Accounting for Share-Based Compensation

Share-based awards exchanged for employee services are accounted for under the fair value method. Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award. The expense for awards expected to vest is recognized over the employee’s requisite service period (generally the vesting period of the award). Awards expected to vest are estimated based on a combination of historical experience and future expectations.

The Company has elected to treat awards with only service conditions and with graded vesting as one award. Consequently, the total compensation expense is recognized straight-line over the entire vesting period, so long as the compensation cost recognized at any date at least equals the portion of the grant date fair value of the award that is vested at that date.

The Company uses the Black-Scholes option-pricing model to compute the estimated fair value of option awards. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected option term, and risk-free interest rates. See Note 16, “Stock Plans,” for additional information.

In addition to stock options, restricted share awards (“RSAs”) and restricted stock units (“RSUs”) with time-based vesting, the Company issues performance share units and awards (“PSUs” and “PSAs”). Compensation cost for PSUs and PSAs is recognized over the requisite service period based on the timing and expected level of achievement of the performance targets. A change in the assessment of the probability of a performance condition being met is recognized in the period of the change in estimate. At the conclusion of the performance period, the applicable number of shares of RSAs, RSUs, or unrestricted shares granted may vary based on the level of achievement of the performance targets.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate

is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to uncertain tax positions in income tax expense. See Note 18, “Income Taxes,” for additional information.

(m) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments, derivative financial instruments used in hedging activities, and accounts receivable. The Company invests in a variety of financial instruments and, by policy, limits the amount of credit exposure with any one financial institution or commercial issuer. The Company has not experienced any material credit losses on its investments.

The Company maintains an allowance reserve for potentially uncollectible accounts for estimated losses resulting from the inability of its customers to make required payments. The Company evaluates its allowance for doubtful accounts based on a combination of factors. In circumstances where specific invoices are deemed to be uncollectible, the Company provides a specific allowance for bad debt against the amount due to reduce the net recognized receivable to the amount reasonably expected to be collected. The Company also provides allowances based on its write-off history. The allowance for doubtful accounts totaled $0.7 million and $2.4 million at December 31, 2014 and 2013, respectively.

To further mitigate the Company’s exposure to uncollectable accounts, the Company may request certain customers provide a negotiable irrevocable letter of credit drawn on a reputable financial institution. These irrevocable letters of credit are typically issued to mature between zero and 90 days from the date the documentation requirements are met, typically when a system ships or upon receipt of final acceptance from the customer. The Company, at its discretion, may monetize these letters of credit on a non-recourse basis after they become negotiable, but before maturity. The fees associates with the monetization are included in “Selling, general, and administrative” in the Consolidated Statements of Operations and were insignificant for the fiscal years ended December 31, 2014, 2013, and 2012.

(n) Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses reflected in the consolidated financial statements approximate fair value due to their short-term maturities. The fair value of debt for footnote disclosure purposes, including current maturities, is estimated using a discounted cash flow analysis based on the estimated current incremental borrowing rates for similar types of securities.

(o) Cash, Cash Equivalents, and Short-Term Investments

All financial instruments purchased with an original maturity of three months or less at the time of purchase are considered cash equivalents. Such items may include liquid money market accounts, U.S. treasuries, government agency securities, and corporate debt. Investments that are classified as cash equivalents are carried at cost, which approximates fair value.

A portion of the Company’s cash and cash equivalents is held by its subsidiaries throughout the world, frequently in each subsidiary’s respective functional currency, which may not be the U.S. dollar. Approximately 81% and 71% of cash and cash equivalents were maintained outside the United States at December 31, 2014 and 2013, respectively.

Marketable securities are generally classified as available-for-sale for use in current operations, if required, and are reported at fair value, with unrealized gains and losses, net of tax, presented as a separate component of stockholders’ equity under the caption “Accumulated other comprehensive income.” These securities can include U.S. treasuries, government agency securities, corporate debt, and commercial paper, all with maturities of greater than three months when purchased. All realized gains and losses and unrealized losses resulting from declines in fair value that are other than temporary are included in “Other, net” in the Consolidated Statements of Operations. The specific identification method is used to determine the realized gains and losses on investments.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(p) Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. The Company reviews and sets standard costs on a periodic basis at current manufacturing costs in order to approximate actual costs. The Company assesses the valuation of all inventories, including manufacturing raw materials, work-in-process, finished goods, and spare parts, each quarter. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated market value if less than cost. Estimates of market value include, but are not limited to, management's forecasts related to the Company's future manufacturing schedules, customer demand, technological and/or market obsolescence, general market conditions, possible alternative uses, and ultimate realization of excess inventory. If future customer demand or market conditions are less favorable than the Company's projections, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made. Inventory acquired as part of a business combination is recorded at fair value on the date of acquisition. See Note 5, "Business Combinations," for additional information.

(q) Business Combinations

The Company allocates the fair value of the purchase consideration of the Company's acquisitions to the tangible assets, intangible assets, including in-process research and development ("IPR&D"), if any, and liabilities assumed, based on estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. IPR&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is amortized over the asset's estimated useful life. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred in "Selling, General, and Administrative" in the Consolidated Statements of Operations. See Note 5, "Business Combinations," for additional information.

(r) Goodwill and Indefinite-Lived Intangibles

Goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Intangible assets with indefinite useful lives are measured at their respective fair values as of the acquisition date. Intangible assets related to IPR&D projects are considered to be indefinite-lived until the completion or abandonment of the associated R&D efforts. If and when development is complete, the associated assets would be deemed finite-lived and would then be amortized based on their respective estimated useful lives at that point in time. Goodwill and indefinite-lived intangibles are not amortized into results of operations but instead are evaluated for impairment. The Company performs the evaluation in the fourth quarter of each fiscal year or more frequently if impairment indicators arise.

The Company first performs a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, and, if so, the Company then applies the two-step impairment test. The two-step impairment test first compares the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not impaired, and the Company is not required to perform further testing. If the carrying amount of the reporting unit exceeds its fair value, the Company determines the implied fair value of the reporting unit's goodwill and, if the carrying amount of the reporting unit's goodwill exceeds its implied fair value, then the Company records an impairment loss equal to the difference.

The Company determines the fair value of its reporting units based on income and/or market approaches. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenues and expenses, working capital requirements, residual growth rates, discount rates, and future economic and market conditions. The Company considers historical data, current internal estimates, and market growth trends when developing financial projections. Market participant assumption estimates consider the information being used internally for business planning purposes, however, actual future results may differ from those estimates. Changes in judgments on any of these factors could materially affect the estimated value of the reporting unit.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(s) Long-Lived Assets and Cost Method Investment

Definite-lived intangible assets consist of purchased technology, customer-related intangible assets, patents, trademarks, covenants not-to-compete, and software licenses, and are initially recorded at fair value. Definite-lived intangibles are amortized over their estimated useful lives for periods up to 17 years, in a method reflecting the pattern in which the economic benefits are consumed, or straight-lined if such pattern cannot be reliably determined.

Property, plant and equipment are recorded at cost. Depreciation expense is calculated based on the estimated useful lives of the assets by using the straight-line method. Amortization of leasehold improvements is recognized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Long-lived assets and cost method investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, a recoverability test is performed utilizing undiscounted cash flows expected to be generated by that asset or asset group compared to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models or, when available, quoted market values and third-party appraisals.

(t) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09: *Revenue from Contracts with Customers* . The amendments in this ASU require that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard outlines a five-step model to be used to make the revenue recognition determination and requires new financial statement disclosures. The standard is effective for interim and annual periods beginning after December 15, 2016 and allows entities to choose among different transition alternatives. The Company is evaluating the impact of adopting the standard on its consolidated financial statements and related financial statement disclosures, and has not yet determined which method of adoption will be selected.

The Company has evaluated other pronouncements recently issued but not yet adopted and does not believe the adoption of these pronouncements will have a material impact on the consolidated financial statements.

Note 2 — Income (Loss) Per Common Share

Basic income (loss) per common share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted income per common share is calculated by dividing net income available to common stockholders by using the weighted average number of common shares and common share equivalents outstanding during the period. The computations of basic and diluted income (loss) per common share are as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands, except per share amounts)		
Net income (loss)	$ (66,940)	$ (42,263)	$ 30,928
Net income (loss) per common share:			
Basic	$ (1.70)	$ (1.09)	$ 0.80
Diluted	$ (1.70)	$ (1.09)	$ 0.79
Basic weighted average shares outstanding	39,350	38,807	38,477
Effect of potentially dilutive share-based awards	—	—	574
Diluted weighted average shares outstanding	39,350	38,807	39,051

For the year ended December 31, 2014 and 2013, 0.7 million and 0.6 million common equivalent shares, respectively, were excluded from the computation of diluted net loss per share as their effect would be anti-dilutive since the Company incurred a net loss. The dilutive effect of outstanding options and restricted stock units is reflected in diluted income per common share by application of the treasury stock method. For the years ended December 31, 2014, 2013, and 2012, respectively, approximately 1.6 million, 1.3 million and 1.3 million potentially dilutive securities underlying restricted stock awards, restricted stock units, and options to purchase common stock were excluded from the calculation since they would have had an antidilutive effect on diluted income per common share.

Note 3 — Fair Value Measurements

Fair value is the price that would be received for an asset or the amount paid to transfer a liability in an orderly transaction between market participants. The Company is required to classify certain assets and liabilities based on the following fair value hierarchy:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

- Level 2: Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and

- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company has evaluated the estimated fair value of financial instruments using available market information and valuations as provided by third-party sources. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

The following table presents the Company's assets and (liabilities) that were measured at fair value on a recurring basis at December 31, 2014 and 2013:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
U.S. treasuries	$ 81,527	$ —	$ —	$ 81,527
Corporate debt	—	39,045	—	39,045
Assets held for sale	—	6,000	—	6,000

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
U.S. treasuries	$ 130,977	$ —	$ —	$ 130,977
Corporate debt	—	77,601	—	77,601
Government agency securities	—	61,013	—	61,013
Commercial paper	—	11,947	—	11,947
Derivative instrument	—	907	—	907
Contingent consideration	—	—	(29,368)	(29,368)

Highly liquid investments with maturities of three months or less are classified as cash equivalents and are carried at cost, which approximates fair value. All investments classified as available-for-sale are recorded at fair value within short-term

investments in the Consolidated Balance Sheets. The Company's investments classified as Level 1 are based on quoted prices that are available in active markets. The Company's investments classified as Level 2 are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.

A reconciliation of the amounts classified as Level 3 is as follows:

	Contingent Consideration
	(in thousands)
Balance as of December 31, 2013	$ (29,368)
Fair value adjustment	29,368
Balance as of December 31, 2014	$ —

The Company estimated the fair value of the contingent consideration by applying various probabilities and discount factors to each of the performance milestones. At December 31, 2013, contingent consideration consisted of $20.1 million and $9.3 million in current and noncurrent other liabilities, respectively, in the Consolidated Balance Sheets. During 2014, the Company determined that the agreed upon post-closing milestones were not met and reversed the fair value of the liability, which is included in "Changes in contingent consideration" in the Consolidated Statements of Operations. Refer to Note 5, "Business Combinations," for additional information.

Note 4 — Investments

At December 31, 2014 and 2013 the amortized cost and fair value of marketable securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
December 31, 2014				
U.S. treasuries	$ 81,506	$ 27	$ (6)	$ 81,527
Corporate debt	39,031	20	(6)	39,045
Total available-for-sale securities	$ 120,537	$ 47	$ (12)	$ 120,572
December 31, 2013				
U.S. treasuries	$ 130,956	$ 22	$ (1)	$ 130,977
Government agency securities	61,004	9	—	61,013
Corporate debt	77,582	55	(36)	77,601
Commercial paper	11,947	—	—	11,947
Total available-for-sale securities	$ 281,489	$ 86	$ (37)	$ 281,538

Available-for-sale securities in a loss position at December 31, 2014 and 2013 were as follows:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	December 31, 2014		December 31, 2013	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(in thousands)			
U.S. treasuries	$ 35,001	$ (6)	$ 29,068	$ (1)
Corporate debt	13,069	(6)	37,654	(36)
Total	$ 48,070	$ (12)	$ 66,722	$ (37)

As of December 31, 2014 and 2013, there were no short-term investments that had been in a continuous loss position for more than 12 months.

The contractual maturities of securities classified as available-for-sale at December 31, 2014 were as follows:

	December 31, 2014	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 74,710	$ 74,718
Due after one year through two years	45,827	45,854
Total	$ 120,537	$ 120,572

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Realized gains for the fiscal years ended December 31, 2014 and 2013 were $0.1 million in each period, and are included in "Other, net" in the Consolidated Statements of Operations. There were minimal realized gains for the year ended December 31, 2012 and no realized losses in any of the three years.

Restricted Cash

The total amount of restricted cash at December 31, 2014 and 2013 was $0.5 million and $2.7 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.

Cost Method Investment

The Company maintains certain investments in support of its strategic business objectives, including a non-marketable cost method investment. The Company's ownership interest is less than 20% of the investee's voting stock, and the Company does not exert significant influence, therefore the investment is recorded at cost. The carrying value of the investment was $19.4 million and $16.9 million at December 31, 2014 and 2013, respectively and is included in "Other assets" on the Consolidated Balance Sheet. The investment is subject to a periodic impairment review; however, there are no open-market valuations, and the impairment analysis requires significant judgment. The analysis includes assessments of the investee's financial condition, the business outlook for its products and technology, its projected results and cash flow, the likelihood of obtaining subsequent rounds of financing, and the impact of any relevant contractual equity preferences held by the Company or others. Fair value of the investment is not estimated unless there are identified events or changes in circumstances that could have a significant adverse effect on the fair value of the investment. No such events or circumstances are present.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Note 5 — Business Combinations

PSP

On December 4, 2014 the Company acquired 100% of Solid State Equipment, LLC (“SSEC”) and rebranded the business Veeco Precision Surface Processing (“PSP”). The results of PSP operations have been included in the consolidated financial statements since the date of acquisition. PSP designs and develops wafer wet processing capabilities. Target market applications include semiconductor advanced packaging (including 2.5D and 3D ICs), MEMS, compound semiconductor (rf, power electronics, LED and others), data storage, photomask, and flat panel displays. PSP further extends the Company’s penetration in the compound semiconductor and MEMS markets and represents the Company’s entry into the advanced packaging market.

The acquisition date fair value of the consideration totaled $145.5 million, net of cash acquired, which consisted of the following:

	Acquisition Date (December 4, 2014)
	(in thousands)
Amount paid, net of cash acquired	$ 145,382
Working capital adjustment	88
Acquisition date fair value	$ 145,470

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The Company utilized third-party valuations to estimate the fair value of certain of the acquired tangible and intangible assets. The values assigned to certain acquired assets and liabilities are preliminary and may be adjusted as further information becomes available during the allocation period of up to 12 months from the acquisition date.

	Acquisition Date (December 4, 2014)
	(in thousands)
Accounts receivable	$ 9,383
Inventory	13,812
Other current assets	463
Property, plant, and equipment	6,912
Intangible assets	79,810
Total identifiable assets acquired	110,380
Accounts payable and accrued expenses	6,473
Customer deposits	6,039
Deferred tax liability, net	2,705
Other	1,089
Total liabilities assumed	16,306
Net identifiable assets acquired	94,074
Goodwill	51,396
Net assets acquired	$ 145,470

The gross contractual value of the acquired accounts receivable was approximately $10.5 million. The fair value of the accounts receivables as indicated above is the amount expected to be collected by the Company. Goodwill generated from the acquisition is primarily attributable to expected synergies from future growth and strategic advantages provided through the expansion of product offerings, as well as assembled workforce. Approximately 80% of the value of the goodwill is expected to be deductible for income tax purposes.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

The classes of intangible assets acquired and the estimated useful life of each class is presented in the table below:

	Acquisition Date (December 4, 2014)	
	Amount	Useful life
	(in thousands)	
Technology	$ 39,950	10 years
Customer relationships	34,310	14 years
Backlog	3,340	6 months
Non-compete agreements	1,130	2 years
Trademark and tradenames	1,080	1 year
Intangible assets acquired	$ 79,810	

The Company determined the estimated fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow, income method, loss-of-revenue/income method, and relief-from-royalty method in determining the purchase price allocation. The fair value of the acquired assets is provisional pending the final valuations for these assets.

During 2014, the Company recognized $3.2 million of acquisition related costs that are included in “Selling, general, and administrative” in the Consolidated Statements of Operations.

The amounts of revenue and income (loss) from continuing operations before income taxes of PSP included in the Company’s consolidated statement of operations from the acquisition date (December 4, 2014) to the period ending December 31, 2014 are as follows:

	Total
	(in thousands)
Revenue	$ 7,906
Loss from operations before income taxes	$ (3,011)

The following represents the unaudited pro forma Consolidated Statements of Operations as if PSP had been included in the Company’s consolidated results for the periods indicated. These amounts have been calculated after applying the Company’s accounting policies to material amounts and also adjusting the result of PSP to reflect the additional amortization and depreciation that would have been expensed assuming the fair value adjustments to the acquired assets had been applied on January 1, 2013:

	December 31,	
	2014	2013
	(in thousands)	
Revenue	$ 447,089	$ 379,272
Loss from operations before income taxes	$ (68,715)	$ (77,252)

ALD

On October 1, 2013 the Company acquired 100% of the outstanding common shares and voting interest of Synos Technology, Inc. and rebranded the business Veeco ALD (“ALD”). The results of ALD operations have been included in the consolidated financial statements since the date of acquisition. ALD is an early stage manufacturer of fast array scanning atomic layer deposition (“FAST-ALD”) tools for the flexible organic light-emitting diode (“OLED”) and semiconductor markets.

The acquisition date fair value of the consideration totaled $102.3 million, net of cash acquired, which consisted of the following:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Acquisition Date (October 1, 2013)
	(in thousands)
Cash (net of cash acquired)	$ 71,488
Contingent consideration	33,539
Working capital adjustment	(2,695)
Acquisition date fair value	$ 102,332

The acquisition agreement included performance milestones that could trigger contingent payments to the original selling shareholders. During the year ended December 31, 2013, the first milestone was achieved, and the Company paid the former shareholders $5.0 million and increased the estimated fair value of the remaining contingent payments by $0.8 million. During 2014, the Company determined that all of the remaining performance milestones were not met, reversed the fair value of the liability, and recorded a non-cash gain of $29.4 million, which is included in “Changes in contingent consideration” in the Consolidated Statements of Operations.

During 2014, the Company finalized the working capital adjustment under the purchase agreement. Based on the final adjustment, the working capital adjustment was reduced to $1.3 million. As a result, a $1.4 million adjustment was made that increased goodwill by $0.2 million and reduced accrued expenses by $1.2 million for the relief of a potential liability that the former shareholders have retained. During 2014, the Company received payment of the $1.3 million working capital adjustment from the former shareholders, which is included in “Acquisitions of business, net of cash acquired” within the Cash Provided by Investing Activities in the Consolidated Statements of Cash Flows.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the acquisition date. The Company utilized third-party valuations to estimate the fair value of the acquired tangible and intangible assets as well as the contingent consideration:

	Acquisition Date (October 1, 2013)
	(in thousands)
Accounts receivable	$ 1,523
Inventory	386
Other current assets	512
Property, plant, and equipment	1,917
Intangible assets	99,270
Total identifiable assets acquired	103,608
Current liabilities	4,370
Estimated deferred tax liability, net	32,426
Total liabilities assumed	36,796
Net identifiable assets acquired	66,812
Goodwill	35,520
Net assets acquired	$ 102,332

The goodwill is not deductible for income tax purposes.

The classes of intangible assets acquired and the original estimated useful life of each class is presented in the table below:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Acquisition Date (October 1, 2013)	
	Amount	Uuseful life
	(in thousands)	
Technology	$ 73,160	14 years
Customer relationships	20,630	8 years
In-process research and development	5,070	To be determined
Trademarks and trade names	140	1 year
Non-compete agreement	270	3 years
Intangible assets acquired	$ 99,270	

The Company determined the estimated fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow, income method, loss-of-revenue/income method, and relief-from-royalty method in determining the purchase price allocation.

During the fourth quarter of 2014, the Company determined that, while its ALD technology was successfully demonstrated at its key OLED display customer, it was unlikely to be adopted in the near-term for flexible OLED applications. The significant reduction in near-term forecasted bookings and cash flows required the Company to assess its ALD reporting unit for impairment. As a result, the Company recorded a non-cash impairment charge of $53.9 million related to goodwill and other long-lived assets for ALD. See Note 6, “Goodwill and Intangible Assets,” for additional information.

During 2013, the Company recognized $1.0 million of acquisition related costs that are included in “Selling, general, and administrative” in the Consolidated Statements of Operations.

The following represents the pro forma Consolidated Statements of Operations as if Veeco ALD had been included in the Company’s consolidated results for the periods indicated:

	December 31,	
	2013	2012
	(in thousands)	
Revenue	$ 346,319	$ 522,029
Income (loss) from operations before income taxes	$ (60,983)	$ 16,840

These amounts have been calculated after applying the Company’s accounting policies to material amounts and also adjusting the result of ALD to reflect the additional amortization that would have been expensed assuming the fair value adjustments to the acquired assets had been applied on January 1, 2012.

Note 6 — Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed in each business combination. The following table presents the changes in goodwill balances during the fiscal years indicated:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Gross Carrying Amount	Accumulated Impairment	Net Amount
		(in thousands)	
As of December 31, 2012	$ 151,069	$ 95,241	$ 55,828
Acquisition	35,520	—	35,520
As of December 31, 2013	186,589	95,241	91,348
Acquisition	51,396	—	51,396
Purchase price adjustments	173	—	173
Impairments	—	27,958	(27,958)
As of December 31, 2014	$ 238,158	$ 123,199	$ 114,959

Additions to the gross goodwill balance during the years ended December 31, 2014 and 2013 resulted from the acquisition of privately-held businesses as described further in Note 5, "Business Combinations."

The Company performed its annual goodwill impairment test in the fourth quarter. The reporting units' fair value exceeded their respective carrying amount and therefore goodwill within these reporting units was not impaired. The fair value of each reporting unit was determined using an income approach to determine the present value of expected future cash flows.

During 2014, the Company successfully demonstrated its FAST-ALD technology for flexible OLED encapsulation. But subsequent to the Company's annual goodwill impairment test, the Company determined that the incumbent deposition technology had progressed to satisfy current market requirements. The carrying amount of the ALD reporting unit was determined to exceed its fair value, and therefore the fair value of the reporting unit's goodwill was estimated. An impairment loss was recognized equal to the excess of the carrying amount of the reporting unit's goodwill over its implied fair value. As part of its valuation to determine the total impairment charge, the Company also estimated the fair value of significant tangible and intangible long-lived assets within the ALD reporting unit. These tangible and intangible long-lived assets were valued using appropriate valuation techniques for assets of their nature, including income and market approaches. As a result of the impairment analysis, the Company recorded non-cash impairment charges of $28.0 million related to goodwill and $25.9 million related to other long-lived assets, including $17.4 million related to customer relationships, $4.8 million related to in-process research and development, and $3.6 million related to certain tangible assets.

The components of purchased intangible assets as of the dates indicated below were as follows:

		December 31, 2014			December 31, 2013		
	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Amount	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Amount
	(in years)			(in thousands)			
Technology	9.6	$ 222,358	$ 106,342	$ 116,016	$ 182,408	$ 97,524	$ 84,884
Customer relationships	13.9	69,350	35,549	33,801	35,040	14,721	20,319
Trademarks and tradenames	3.5	3,050	1,096	1,954	1,970	763	1,207
Indefinite-lived trademark	—	2,900	—	2,900	2,900	—	2,900
IPR&D	—	5,070	5,070	—	5,070	—	5,070
Other	1.1	5,485	848	4,637	765	429	336
Total	10.2	$ 308,213	$ 148,905	$ 159,308	$ 228,153	$ 113,437	$ 114,716

Other intangible assets primarily consist of patents, licenses, customer backlog, and non-compete agreements.

For the fiscal years ended December 31, 2014, 2013, and 2012, amortization expense for intangible assets was $13.1 million, $5.5 million, and $4.9 million, respectively. Based on the intangible assets recorded as of December 31, 2014, and

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

assuming no subsequent additions to or impairment of the underlying assets, the remaining estimated annual amortization expense is expected to be as follows:

	Amortization
	(in thousands)
2015	$ 27,003
2016	20,969
2017	18,100
2018	16,492
2019	15,235
Thereafter	58,609
Total	$ 156,408

Note 7 — Inventories

Inventories are stated at the lower of cost or market using standard costs that approximate actual costs on a first-in, first-out basis. Inventories consist of the following:

	December 31,	
	2014	2013
	(in thousands)	
Materials	$ 30,319	$ 34,301
Work-in-process	25,096	12,900
Finished goods	6,056	12,525
Total	$ 61,471	$ 59,726

Note 8 — Property, Plant, and Equipment and Assets Held for Sale

Property and equipment, net, consist of the following:

	December 31,		Average
	2014	2013	Useful Life
	(in thousands)		
Land	$ 9,392	$ 12,535	
Building and improvements	51,979	52,050	10 – 40 years
Machinery and equipment	104,815	110,228	3 – 10 years
Leasehold improvements	4,356	5,888	3 – 7 years
Gross property,plant and equipment	170,542	180,701	
Less: accumulated depreciation and amortization	91,790	91,562	
Net property, plant, and equipment	$ 78,752	$ 89,139	

Depreciation expense was $11.4 million, $12.9 million, and $11.3 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Lab Tools

At December 31, 2014 and 2013, the carrying value of systems that had previously been used in the Company’s laboratories as Veeco Certified Equipment was approximately $1.3 million and $7.2 million, respectively, and was included in “Property, plant, and equipment, net” in the Consolidated Balance Sheets. These systems are being held for sale and are the same types of tools that the Company sells to its customers in the ordinary course of business. During the years ended December 31, 2014 and 2013, the Company had aggregate sales of $8.9 million and $7.4 million, respectively, of these

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

tools with associated costs of $7.4 million and $3.7 million, respectively, which was included in “Net sales” and “Cost of sales” in the Consolidated Statements of Operations. During the years ended December 31, 2014 and 2013, the Company evaluated certain systems and reduced the carrying value of these systems that were held for sale by $0.1 million and $0.9 million, respectively, which was included in “Asset impairment” in the Consolidated Statements of Operations.

Assets Held for Sale

During the year ended December 31, 2014, the Company classified property, plant, and equipment with a carrying value of $9.5 million as assets held for sale. Using Level 2 measurement principles, the Company determined that the carrying cost of these assets exceeded the fair market value, less cost to sell, and recorded an impairment charge of approximately $3.5 million, which consisted of $1.6 million related to the Company’s research and demonstration labs in Asia and $1.9 million related to a vacant building and land. These amounts were included in “Asset impairment” in the Consolidated Statements of Operations. The net $6.0 million carrying value of these assets are included in “Assets held for sale” in the Consolidated Balance Sheet. During the year ended December 31, 2014, the Company recognized additional asset impairment charges of $0.7 million relating to assets that were abandoned during the year, which was included in “Asset impairment” in the Consolidated Statements of Operations.

Note 9 — Accrued Expenses and Other Liabilities

The components of accrued expenses and other current liabilities as of the dates indicated were as follows:

	December 31, 2014	December 31, 2013
	(in thousands)	
Payroll and related benefits	$ 26,605	$ 11,020
Sales, use, and other taxes	1,776	5,402
Contingent consideration	—	20,098
Warranty	5,411	5,662
Restructuring liability	1,428	533
Other	13,198	8,369
Total	$ 48,418	$ 51,084

Customer deposits and deferred revenue

Customer deposits totaled $73.0 million and $27.5 million at December 31, 2014 and 2013, respectively, which are included in “Customer deposits and deferred revenue” in the Consolidated Balance Sheets.

Note 10 — Discontinued Operations

CIGS Solar Systems Business

During 2011, the Company announced a plan to discontinue its CIGS solar systems business and reflected the results of operations for the CIGS solar systems business as discontinued operations.

Metrology

During 2010, the Company completed the sale of its Metrology business, except for assets located in China due to local restrictions. The Company reflected the results of operations for the Metrology business as discontinued operations and recognized a pre-tax deferred gain of $5.4 million during 2012 related to the completion of the sale of the assets in China. The Company also recognized 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 2012.

Summary information related to discontinued operations is as follows:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	2012		
	Solar Systems	Metrology	Total
		(in thousands)	
Net sales	$ —	$ —	$ —
Net income (loss) from discontinued operations	$ (62)	$ 4,461	$ 4,399

Note 11 — Restructuring Charges

Beginning in 2011 and in response to challenging business conditions, the Company initiated activities to reduce and contain spending, including reducing its workforce, consultants, and discretionary expenses.

During 2012, the Company recorded $3.8 million in personnel severance and related costs resulting from a headcount reduction of 52 employees. These reductions in workforce included executives, management, administration, sales and service, and manufacturing employees companywide. This consolidation was substantially complete at the end of 2012.

During 2013, the Company recorded $1.5 million in personnel severance and related costs resulting from the restructuring of one of its international sales offices and the consolidation of certain sales and administrative functions. This consolidation was substantially complete at the end of 2013.

During 2014, the Company announced the closing of its Ft. Collins, Colorado and Camarillo, California facilities. Business activities formally conducted at these sites have been transferred to the Company's Plainview, New York facility, and the Company recorded $0.4 million of facility closing costs. The Company also took additional measures to improve profitability in the challenging business environment and notified 93 employees of their termination from the Company and recorded $4.0 million of personnel severance and related costs. These actions were substantially complete at the end of 2014. The total remaining amount expected to be incurred related to facility closing costs is approximately $0.5 million.

The following table shows the amounts incurred and paid for restructuring activities during the years ended December 31, 2014, 2013, and 2012 and the remaining accrued balance of restructuring costs as of December 31, 2014, which is included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets:

	Personnel Severance and Related Costs	Facility Closing Costs	Total
		(in thousands)	
Balance at December 31, 2012	$ 1,875	$ —	$ 1,875
Provision	1,485	—	1,485
Payments	(2,827)	—	(2,827)
Balance at December 31, 2013	533	—	533
Provision	4,012	382	4,394
Payments	(3,117)	(382)	(3,499)
Balance at December 31, 2014	$ 1,428	$ —	$ 1,428

Note 12 — Commitments and Contingencies

Warranty

Warranties are typically valid for one year from the date of system final acceptance, and the Company estimates the costs that may be incurred under the warranty. Estimated warranty costs are determined by analyzing specific product and historical configuration statistics and regional warranty support costs and is affected by product failure rates, material usage, and labor costs incurred in correcting product failures during the warranty period. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Changes in the Company's product warranty reserves were as follows:

	December 31,	
	2014	2013
	(in thousands)	
Balance, beginning of the year	$ 5,662	$ 4,942
Addition for new warranties issued	3,484	5,291
Addition from PSP acquisition	809	—
Settlements	(3,802)	(5,580)
Changes in estimate	(742)	1,009
Balance, end of the year	$ 5,411	$ 5,662

Minimum Lease Commitments

Minimum lease commitments at December 31, 2014 for property and equipment under operating lease agreements (exclusive of renewal options) are payable as follows:

Payments due by period:	Operating Leases (in thousands)
2015	$ 2,322
2016	2,423
2017	1,993
2018	1,224
2019	526
Thereafter	2,700
Total	$ 11,188

Rent expense was $2.3 million, $2.9 million, and $3.5 million in 2014, 2013 and 2012, respectively. In addition, the Company is obligated under such leases for certain other expenses, including real estate taxes and insurance.

Environmental Remediation

The Company is aware that petroleum hydrocarbon contamination has been detected in the soil at the site of a facility formerly leased by the Company in Santa Barbara, California. The Company has been indemnified for any liabilities that may be incurred which arise from environmental contamination at the site. Even without consideration of such indemnification, the Company does not believe that any material loss or expense is probable in connection with any such liabilities. The former owner of the land and building in Santa Barbara, California in which the Company's former Metrology operations were located (which business was sold to Bruker Corporation ("Bruker") on October 7, 2010), has disclosed that there are hazardous substances present in the ground under the building. Management believes that the comprehensive indemnification clause that was part of the purchase contract relating to the purchase of such land provides adequate protection against any environmental issues that may arise. The Company has provided Bruker with similar indemnification as part of the sale.

Legal Proceedings

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. The Company believes this lawsuit is without merit and intends to defend vigorously against the claims. The Company is unable to predict the outcome of this action or to

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

reasonably estimate the possible loss or range of loss, if any, arising from the claims asserted therein. The Company believes that, in the event of any recovery by the plaintiff from Veeco, such recovery would be fully covered by insurance.

The Company is involved in various other legal proceedings arising in the normal course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Concentrations of Credit Risk

The Company depends on purchases from its ten largest customers, which accounted for 65% and 69% of total accounts receivable as of December 31, 2014 and 2013, respectively.

Customers who accounted for more than 10% of aggregate accounts receivable or net sales are as follows:

	Accounts Receivable Year ended December 31,		Net Sales for the Year Ended December 31,		
Customer	2014	2013	2014	2013	2012
Customer A	*	*	15%	*	*
Customer B	20%	10%	11%	14%	*
Customer C	13%	11%	*	*	*
Customer D	*	23%	*	*	14%

* Less than 10% of aggregate accounts receivable or net sales.

The Company manufactures and sells its products to companies in different geographic locations. Refer to Note 19, "Segment Reporting and Geographic Information," for additional information. In certain instances, the Company requires deposits from its customers for a portion of the sales price in advance of shipment and performs periodic credit evaluations on its customers. Where appropriate, the Company requires letters of credit on certain non-U.S. sales arrangements. Receivables generally are due within 30 – 90 days from the date of invoice. The net accounts receivable balance is concentrated in the following geographic locations:

	December 31, 2014	December 31, 2013
	(in thousands)	
China	$ 17,911	$ 4,130
Korea	8,118	2,411
Thailand	6,324	2,041
Taiwan	5,838	427
Other	3,986	4,890
Asia Pacific	42,177	13,899
United States	13,139	8,369
EMEA and other	4,769	1,555
Total	$ 60,085	$ 23,823

Suppliers

The Company outsources certain functions to third parties, including the manufacture of all or substantially all of its MOCVD systems, ion beam and other data storage systems, and ion sources. The Company primarily relies on several suppliers for the manufacturing of these systems, but the Company does maintain a minimum level of internal manufacturing capability for these systems. The failure of the Company's present suppliers to meet their contractual obligations under its supply arrangements and the Company's inability to make alternative arrangements or resume the manufacture of these systems could have a material adverse effect on the Company's revenues, profitability, cash flows and relationships with its customers.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

In addition, certain of the components and sub-assemblies included in the Company's products are obtained from a single source or a limited group of suppliers. The Company's inability to develop alternative sources, if necessary, could result in a prolonged interruption in supply or a significant increase in the price of one or more components, which could adversely affect the Company's operating results.

The Company had deposits with its suppliers of $12.7 million and $9.4 million at December 31, 2014 and 2013, respectively, that were included in "Prepaid expenses and other current assets" on the Consolidated Balance Sheets.

Purchase Commitments

The Company had purchase commitments of $112.4 million at December 31, 2014, all of which will come due within one year.

Bank Guarantees

The Company has bank guarantees issued by a financial institution on its behalf as needed. At December 31, 2014, outstanding bank guarantees totaled $45 million, of which $0.5 million is collateralized against cash that is restricted from use. As of December 31, 2014, the Company had $26 million of unused lines of credit available, which can be drawn upon to cover performance bonds required by customers.

Note 13 — Debt

Debt consists of a mortgage note payable with a carrying value of $1.8 million and $2.1 million as of December 31, 2014 and 2013, respectively. The mortgage note payable is secured by certain land and buildings with a carrying value of $3.3 million and $4.7 million as of December 31, 2014 and 2013, respectively. One of the buildings is currently held for sale. The annual interest rate on the mortgage is 7.91%, and the final payment is due on January 1, 2020. The Company determined the mortgage is a Level 3 liability in the fair-value hierarchy and estimated its fair value as $2.0 million and $2.3 million at December 31, 2014 and 2013, respectively, using a discounted cash flow model. Payments due under the note are as follows:

	Total
	(in thousands)
2015	$ 314
2016	340
2017	368
2018	398
2019	427
Total	1,847
Less current portion	314
Total (less current maturities)	$ 1,533

Note 14 — Derivative Financial Instruments

The Company is exposed to financial market risks arising from changes in currency exchange rates. Changes in currency exchange rate changes could affect the Company's foreign currency denominated monetary assets and liabilities and forecasted cash flows. The Company enters into monthly forward derivative contracts with the intent of mitigating a portion of this risk. The Company only uses derivative financial instruments in the context of hedging and not for speculative purposes and has not designated its foreign exchange derivatives as hedges. Accordingly, changes in fair value from these contracts are recorded as "Other, net" in the Company's Consolidated Statements of Operations. The fair value of these contracts is included in "Prepaid expenses and other current assets" in the Company's Consolidated Balance Sheets. The Company executes derivative transactions with highly rated financial institutions to mitigate counterparty risk.

The Company did not have any outstanding derivative contracts at December 31, 2014. A summary of the foreign exchange derivatives outstanding on December 31, 2013 is as follows:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Fair Value	Maturity Dates	Notional Amount
		(in thousands)	
December 31, 2013			
Foreign currency exchange forwards	$ 1	January 2014	$ 4,700
Foreign currency collar	906	October 2014	34,069
Total	$ 907		$ 38,769

The following table shows the gains and (losses) from currency exchange derivatives during the years ended December 31, 2014, 2013, and 2012, which are included in "Other, net" in the Consolidated Statements of Operations:

	Year ended December 31,		
	2014	2013	2012
		(in thousands)	
Foreign currency exchange forwards	$ (89)	$ 248	$ 333
Foreign currency collar	(457)	906	—
	$ (546)	$ 1,154	$ 333

Note 15 — Stockholders' Equity

Accumulated Other Comprehensive Income

The following table presents the changes in the balances of each component of AOCI, net of tax:

	Foreign Currency Translation	Minimum Pension Liability	Unrealized Gains (losses) on AFS Securities	Total
		(in thousands)		
Balance at December 31, 2012	$ 6,701	$ (775)	$ 47	$ 5,973
Other comprehensive income (loss) before reclassifications	(1,322)	125	34	(1,163)
Benefit (provision) for income taxes	(53)	(86)	11	(128)
Amounts reclassified from AOCI	—	—	(61)	(61)
Other comprehensive income (loss)	(1,375)	39	(16)	(1,352)
Balance at December 31, 2013	5,326	(736)	31	4,621
Other comprehensive income (loss) before reclassifications	149	(145)	51	55
Amounts reclassified from AOCI	(3,142)	—	(65)	(3,207)
Other comprehensive income (loss)	(2,993)	(145)	(14)	(3,152)
Balance at December 31, 2014	$ 2,333	$ (881)	$ 17	$ 1,469

During the 2014, the Company completed its plan to liquidate its subsidiary in Japan, since the Company moved to a distributor model to serve its customers in that region. As a result of the liquidation, a cumulative translation gain of $3.1 million was reclassified from Other Comprehensive Income to "Other, net" on the Consolidated Statements of Operations.

Preferred Stock

The Board of Directors has authority under the Company's Certificate of Incorporation to issue shares of preferred stock with voting and economic rights to be determined by the Board of Directors.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Treasury Stock

On August 24, 2010, the Board of Directors authorized the repurchase of up to $200 million of the Company’s common stock. All funds for this repurchase program were exhausted during fiscal year 2011, and during fiscal year 2012, the Company cancelled and retired the 5,278,828 shares of treasury stock previously purchased. During 2012 the Company 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 16 — Stock Plans

Share-based incentive awards are provided to employees under the terms of the Company’s equity incentive compensation plans (the “Plans”). During 2010 the Company’s Board of Directors approved the 2010 Stock Incentive Plan (as amended to date, the “2010 Plan”), which replaced the 2000 Stock Incentive Plan, as amended (the “2000 Plan”). The Plans are administered by the Compensation Committee of the Board of Directors. The Company’s employees, non-employee directors, and consultants are eligible to receive awards under the 2010 Plan, which can include non-qualified stock options, incentive stock options, restricted share awards (“RSAs”), restricted share units (“RSUs”), share appreciation rights, dividend equivalent rights or any combination thereof. The Company typically settles awards under the Plans with newly issued shares. All Plans, with the exception of acquired companies’ stock plans, have been approved by the Company’s shareholders.

The Board of Directors granted equity awards to certain employees in connection with the Company’s acquisition of ALD during fiscal year 2013 (Refer to Note 5, “Business Combinations” for additional information on the acquisition). The equity awards were granted under the Company’s 2013 Inducement Stock Incentive Plan (the “Inducement Plan”), which the Board of Directors adopted to facilitate the granting of equity awards as an inducement to these employees to commence employment with the Company. The Company issued 124,500 stock option shares and 87,000 RSUs under this plan. The stock options will vest over a three year period and have a 10-year term, and the RSUs will vest over a two or four year period. As of December 31, 2013, the Inducement Plan was merged into the 2010 Plan and is considered an inactive plan with no further shares available for grant. As of December 31, 2014, there are 124,500 option shares and 82,700 RSUs outstanding under the Inducement Plan.

The Company is authorized to issue up to 6.8 million shares under the 2010 Plan, including additional shares authorized under a 2013 plan amendment approved by shareholders. Option awards are generally granted with an exercise price equal to the closing price of the Company’s common stock on the trading day prior to the date of grant; option awards generally vest over a three year period and have a seven or ten year term. RSAs and RSUs generally vest over one to five years. Certain option and share awards provide for accelerated vesting if there is a change in control, as defined in the 2010 Plan. As of December 31, 2014, there are 1.9 million option shares and 0.4 million RSUs outstanding under the 2010 Plan.

The 2000 Plan was approved by the Company’s Board of Directors and shareholders in fiscal year 2000 and was replaced by the 2010 Plan. Therefore, no additional awards are made under this plan. Stock awards granted pursuant to the 2000 Plan expire after seven years and generally vest over a two to five year period. As of December 31, 2014, there are 0.4 million option shares outstanding under the 2000 Plan.

Shares Reserved for Future Issuance

At December 31, 2014, the Company has 4.9 million shares reserved to cover exercises of outstanding stock options, vesting of RSUs, and additional grants under the 2010 Plan.

Share-Based Compensation

The Company recognized share-based compensation in the following line items in the Consolidated Statements of Operations for the periods indicated:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Cost of sales	$ 2,456	$ 1,446	$ 1,467
Selling, general, and administrative	11,859	8,339	9,677
Research and development	4,498	3,347	2,709
Share-based compensation expense before tax	18,813	13,132	13,853
Income tax benefit	(6,011)	(4,367)	(4,849)
Net share-based compensation expense	$ 12,802	$ 8,765	$ 9,004

The Company capitalized an insignificant amount of share-based compensation into inventory for the years ended December 31, 2014, 2013, and 2012.

The following table summarizes information about unrecognized share-based compensation costs at December 31, 2014:

	Unrecognized Share-Based Compensation Costs	Weighted Average Period Expected to be Recognized
	(in thousands)	(in years)
Stock option awards	$ 9,939	2.0
Restricted stock units	9,980	2.5
Restricted stock awards	17,501	2.8
Performance share units	2,855	3.3
Performance share awards	152	0.4
Total unrecognized share-based compensation cost	$ 40,427	2.5

Stock Option Awards

Stock options are awards issued to employees that entitle the holder to purchase shares of the Company’s stock at a fixed price. At December 31, 2014, options outstanding that have vested and are expected to vest were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Vested	1,409	$ 30.76	5.2	$ 10,127
Expected to vest	903	$ 32.93	7.7	2,091
Total	2,312	$ 31.61	6.2	$ 12,218

Outstanding options expected to vest are net of estimated future forfeitures. The aggregate intrinsic value represents the difference between the option exercise price and $34.88, the closing price of the Company’s common stock on December 31, 2014, the last trading day of the Company’s fiscal year as reported on The NASDAQ Stock Market for all in-the-money options.

Additional information with respect to stock option activity was as follows:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Number of Shares	Weighted Average Exercise Price
	(in thousands)	
Outstanding at December 31, 2011	2,106	$ 25.58
Granted	704	32.55
Exercised	(351)	15.39
Expired or forfeited	(137)	35.88
Outstanding at December 31, 2012	2,322	$ 28.63
Granted	539	32.68
Exercised	(149)	14.74
Expired or forfeited	(114)	35.22
Outstanding at December 31, 2013	2,598	$ 29.98
Granted	509	33.05
Exercised	(561)	23.88
Expired or forfeited	(155)	36.22
Outstanding at December 31, 2014	2,391	$ 31.65

The following table summarizes stock option information at December 31, 2014:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Shares	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
	(in thousands)	*(in thousands)*	*(in years)*		*(in thousands)*	*(in thousands)*	*(in years)*	
$8.82 – $17.48	386	$ 8,769	1.3	$ 12.15	386	$ 8,769	1.3	$ 12.15
$20.80 – $31.45	347	1,626	8.8	30.20	125	616	8.7	29.94
$31.91 – $48.04	1,429	2,000	6.9	34.14	669	742	6.4	34.63
$48.90 – $51.70	229	—	6.4	51.21	229	—	6.4	51.21
	2,391	$ 12,395	6.2	$ 31.65	1,409	$ 10,127	5.2	$ 30.76

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards. The weighted average estimated values of employee stock option grants as well as the weighted average assumptions that were used in calculating such values during fiscal years 2014, 2013, and 2012 were based on estimates at the date of grant as follows:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Year ended December 31,		
	2014	2013	2012
Weighted average fair value	$ 11.58	$ 13.47	$ 15.56
Dividend yield	0%	0%	0%
Expected volatility factor [1]	44%	49%	59%
Risk-free interest rate [2]	1.19%	1.27%	0.70%
Expected life(in years) [3]	3.9	4.5	4.5

(1) Expected volatility is measured using historical daily price changes of the Company's stock over the respective expected term of the options and the implied volatility derived from the market prices of the Company's traded opt ions.

(2) The risk-free rate for periods within the contractual term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant.

(3) The expected life is the number of years the Company estimates that options will be out standing prior to exercise. The Company's computation of expected life was determined using a lattice-based model incorporating historical post vest exercise and employee termination behavior.

The following table summarizes information on options exercised for the periods indicated:

	Year ended December 31,		
	2014	2013	2012
		(in thousands)	
Cash received from options exercised	$ 12,056	$ 2,199	$ 5,409
Intrinsic value of options exercised	$ 8,390	$ 2,509	$ 6,800

RSAs and RSUs

RSAs are stock awards issued to employees that are subject to specified restrictions and a risk of forfeiture. RSAs entitle holders to dividends. The restrictions typically lapse over one to five years. The fair value of the awards is determined and fixed based on the closing price of the Company's common stock on the trading day prior to the date of grant. RSUs are stock awards issued to employees that entitle the holder to receive shares of common stock as the awards vest, typically over one to five years. RSUs do not entitle holders to dividends. The fair value of the awards is determined and fixed based on the closing price of the Company's common stock on the trading day prior to the date of grant reduced by the present value of dividends expected to be paid on the Company's stock prior to vesting of the RSUs, which is currently assumed to be zero.

The following table summarizes the activity of RSAs and RSUs under the Plans:

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at December 31, 2011	618	$ 33.61
Granted	324	32.62
Released	(167)	20.60
Forfeitures	(82)	34.98
Outstanding at December 31, 2012	693	$ 36.11
Granted	798	33.16
Released	(207)	32.44
Forfeitures	(126)	34.33
Outstanding at December 31, 2013	1,158	$ 34.93
Granted	395	34.18
Released	(183)	38.65
Forfeitures	(133)	33.66
Outstanding at December 31, 2014	1,237	$ 34.27

Released shares include the impact of restricted stock shares that were cancelled due to elections by employees to cover withholding taxes with such shares. The total fair value of shares that vested during the years ended December 31, 2014, 2013, and 2012 was $6.2 million, $7.9 million, and $5.4 million, respectively.

Note 17 — Retirement Plans

The Company maintains a defined contribution plan for the benefit of its U.S. employees. The plan is intended to be tax qualified and contains a qualified cash or deferred arrangement as described under Section 401(k) of the Internal Revenue Code. Eligible participants may elect to contribute a percentage of their base compensation, and the Company may make matching contributions, generally equal to fifty cents for every dollar employees contribute, up to the lesser of three percent of the employee's eligible compensation or three percent of the maximum the employee is permitted to contribute under then current Internal Revenue Code limitations. Generally, the plan calls for vesting in the Company contributions over the initial five years of a participant's employment. The Company maintains a similar type of contribution plan at one of its foreign subsidiaries. The Company recognized costs associated with these plans of approximately $1.9 million, $2.3 million, and $2.5 million for fiscal years 2014, 2013, and 2012, respectively.

The Company acquired a defined benefit plan in fiscal year 2000 that had been frozen as of September 30, 1991, and no further benefits have been accrued by participants since that date. All participants are fully vested in their respective benefits. The plan year end is September 30 and is subject to the provisions of the Employee Retirement Income Security Act of 1974. At September 30, 2014, the plan had 73 participants and $1.5 million in contract assets.

Note 18 — Income Taxes

The amounts of income from continuing operations before income taxes attributable to domestic and foreign operations were as follows:

	Year ended December 31,		
	2014	2013	2012
		(in thousands)	
Domestic	$ (95,195)	$ (84,942)	$ 5,811
Foreign	16,841	13,732	32,375
	$ (78,354)	$ (71,210)	$ 38,186

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Significant components of the provision (benefit) for income taxes from continuing operations consisted of the following:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Current:			
Federal	$ (2,464)	$ (21,022)	$ 2,515
Foreign	2,325	3,921	7,576
State and local	55	148	(317)
Total current provision (benefit) for income taxes	(84)	(16,953)	9,774
Deferred:			
Federal	(11,230)	(11,589)	(482)
Foreign	(291)	(462)	727
State and local	191	57	1,638
Total deferred provision (benefit) for income taxes	(11,330)	(11,994)	1,883
Total provision (benefit) for income taxes	$ (11,414)	$ (28,947)	$ 11,657

The income tax expense from continuing operations was reconciled to the tax expense computed at the U.S. federal statutory tax rate as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Income tax provision (benefit) at U.S. statutory rates	$ (27,424)	$ (24,923)	$ 13,366
State taxes, net of U.S. federal impact	(662)	(1,554)	(89)
Effect of international operations	(6,160)	(4,275)	(2,387)
Domestic production activities deduction	—	1,554	(489)
Research and development tax credit	(1,935)	(3,151)	(3,013)
Net change in valuation allowance	27,156	2,420	2,943
Change in accrual for unrecognized tax benefits	(1,940)	577	533
Goodwill impairment	9,786	—	—
Change in contingent consideration	(10,279)	290	—
Other	44	115	793
Total provision (benefit) for income taxes	$ (11,414)	$ (28,947)	$ 11,657

The Company entered into an agreement during the fourth quarter of fiscal year 2014 that concludes that it will receive a tax incentive pursuant to a negotiated tax holiday for the period from August 1, 2010 through July 31, 2014 in one of its foreign subsidiaries. As such, the Company reversed a $4.9 million tax liability, which represents the cumulative effect of calculating the tax provision using the incentive tax rate as compared to the foreign country's statutory rate through the end of 2013.

In connection with the acquisition of PSP, the Company recorded a $2.7 million deferred tax liability related to the difference between the basis of assets acquired as calculated for financial reporting purposes as compared with the basis of assets acquired as calculated for income tax purposes. Refer to Note 5, "Business combinations" for additional information on the acquisition of PSP.

The Company did not record any excess tax benefits related to share-based compensation in 2014 or 2013, which would have been $0.6 million and $0.5 million, respectively. In the future, the Company will record the excess tax benefits to

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

additional paid-in capital for financial reporting purposes when the net operating losses for excess tax benefits are utilized and reduce the Company's current taxes payable. During 2012, the tax benefit from share-based incentive awards that was deductible for tax purposes exceeded that which was recorded for financial reporting purposes by $2.1 million and was recorded to "Additional paid-in capital" in the Consolidated Balance Sheets.

Deferred income taxes reflect the effect of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The tax effects of the temporary differences were as follows:

	December 31, 2014	December 31, 2013
	(in thousands)	
Deferred tax assets:		
Inventory valuation	$ 8,244	$ 6,983
Net operating losses and credit carry forwards	39,750	18,972
Warranty and installation accruals	2,452	3,002
Share-based compensation	11,794	10,638
Other	2,647	3,716
Total deferred tax assets	64,887	43,311
Valuation allowance	(34,909)	(7,753)
Net deferred tax assets	29,978	35,558
Deferred tax liabilities:		
Purchased intangible assets	34,018	45,208
Undistributed earnings	1,047	1,737
Depreciation	2,274	4,711
Total deferred tax liabilities	37,339	51,656
Net deferred taxes	$ (7,361)	$ (16,098)

The Company did not make a provision for U.S. federal income taxes or additional withholding taxes on amounts invested in foreign subsidiaries in the amounts of $115.8 million and $101.0 million at December 31, 2014 and 2013, respectively, since such amounts are indefinitely reinvested. As such, it is not practicable to determine the amount of tax associated with such unremitted earnings. For financial reporting purposes, these balances are determined as amounts that exceed the tax basis of such investments. The Company has provided U.S. federal income taxes and additional withholding taxes on foreign earnings that are anticipated to be remitted.

As of December 31, 2014, the Company had U.S. federal net operating loss carryforwards of approximately $53.3 million that will expire between 2031 and 2034, if not utilized. As of December 31, 2014, the Company had U.S. foreign tax credit carryforwards of $7.0 million that will expire between 2023 and 2024 and U.S. federal research and development credits of $9.2 million that will expire between 2031 and 2034. The Company also has state and local net operating losses and credit carryforwards.

The Company makes assessments to estimate if sufficient taxable income will be generated in the future to use existing deferred tax assets. The Company's cumulative three year loss in its domestic operations led to a full valuation allowance against the Company's U.S. deferred tax assets, since the Company could not conclude that such amounts are realizable on a more-likely-than-not basis. As such, the Company increased the valuation allowance by approximately $27.2 million at December 31, 2014.

The Company may amortize indefinite-lived intangible assets for tax purposes, which are not amortizable for financial reporting purposes. The deferred tax liability at December 31, 2014 relates to the tax effect of differences between financial reporting and tax bases of intangible assets that are not expected to reverse within the Company's net operating loss

carryforward period.

A roll-forward of the Company's uncertain tax positions for all U.S. federal, state, and foreign tax jurisdictions was as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
	(in thousands)		
Balance at beginning of year	$ 6,228	$ 5,818	$ 4,748
Additions for tax positions related to current year	244	324	435
Additions for tax positions related to prior years	199	477	742
Reductions for tax positions related to prior years	(2,345)	(224)	(59)
Reductions due to the lapse of the applicable statute of limitations	(38)	—	(48)
Settlements	(12)	(167)	—
Balance at end of year	$ 4,276	$ 6,228	$ 5,818

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $4.3 million and $6.2 million at December 31, 2014 and 2013, respectively. The gross amount of interest and penalties accrued in income tax payable in the Consolidated Balance Sheets was approximately $0.3 million and $0.8 million at December 31, 2014 and 2013, respectively.

The Company or one of its subsidiaries files income tax returns in the United States federal jurisdiction and various states, local, and foreign jurisdictions. All material federal income tax matters have been concluded for years through 2010 subject to subsequent utilization of net operating losses generated in such years. The recently settled 2010 IRS examination resulted in the reversal of approximately $2.3 million of liabilities relating to uncertain tax positions . The 2011 federal tax return is currently under examination. All material state and local income tax matters have been reviewed through 2008. The majority of the Company's foreign jurisdictions have been reviewed through 2009. Principally all of the Company's foreign jurisdictions remain open with respect to the tax years from 2010 through 2014. The Company does not anticipate that its uncertain tax position will change significantly within the next twelve months subject to the completion of the ongoing federal tax audit and any resultant settlement.

Note 19 — Segment Reporting and Geographic Information

The Company operates and measures its results in one operating segment and therefore has one reportable segment: the design, development, manufacture, and support of thin film process equipment primarily sold to make electronic devices. The Company's Chief Operating Decision Maker, the Chief Executive Officer, evaluates performance of the Company and makes decisions regarding allocation of resources based on total Company results.

Revenue by major class of product is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
	(in thousands)		
MOCVD	$ 279,751	$ 219,914	$ 314,152
MBE	28,033	29,419	49,029
Surface Processing	7,906	—	—
Ion Beam and other	77,183	82,416	152,839
Total Revenue	$ 392,873	$ 331,749	$ 516,020

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

The Company's significant operations outside the United States include sales and service offices in Asia-Pacific and Europe. For geographic reporting, revenues are attributed to the location in which the customer facility is located. Revenue and long-lived tangible assets by geographic region is as follows:

	Net Sales to Unaffiliated Customers			Long-Lived Tangible Assets		
	2014	2013	2012	2014	2013	2012
	(in thousands)					
United States	$ 44,060	$ 57,609	$ 83,317	$ 63,349	$ 66,002	$ 74,497
Asia Pacific [1]	311,182	252,199	390,995	15,325	23,042	23,769
EMEA [2] and other	37,631	21,941	41,708	78	95	36
Total	$ 392,873	$ 331,749	$ 516,020	$ 78,752	$ 89,139	$ 98,302

(1) Net sales to customers in China were 40%, 45%, and 42% of total net sales for the years ended December 31, 2014, 2013, 2012, respectively.

(2) Consists of Europe, the Middle East, and Africa

Note 20 — Selected Quarterly Financial Information (unaudited)

The following table presents selected unaudited financial data for each fiscal quarter of 2014 and 2013. Although unaudited, this information has been prepared on a basis consistent with the Company's audited Consolidated Financial Statements and, in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are considered necessary for a fair presentation of this information in accordance with GAAP. Such quarterly results are not necessarily indicative of future results of operations.

	Fiscal 2014				Fiscal 2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(in thousands, except per share amounts)							
Net sales	$ 90,841	$ 95,122	$ 93,341	$ 113,569	$ 61,781	$ 97,435	$ 99,324	$ 73,209
Gross profit	$ 33,777	$ 30,673	$ 32,558	$ 37,874	$ 22,552	$ 34,640	$ 30,308	$ 15,642
Net income (loss)	$ 19,160	$ (15,211)	$ (13,977)	$ (56,912)	$ (10,071)	$ (4,081)	$ (6,026)	$ (22,085)
Basic income (loss) per common share	$ 0.49	$ (0.39)	$ (0.35)	$ (1.44)	$ (0.26)	$ (0.11)	$ (0.16)	$ (0.57)
Diluted income (loss) per common share	$ 0.48	$ (0.39)	$ (0.35)	$ (1.44)	$ (0.26)	$ (0.11)	$ (0.16)	$ (0.57)

Impairment Charge

During the fourth quarter of 2014, the Company recorded a non-cash asset impairment charge of $53.9 million related to its ALD reporting unit. Refer to Note 6, "Goodwill and Intangible Assets," for additional information.

Acquisition of PSP

During the fourth quarter of 2014, the Company acquired PSP. The results of operations of PSP have been included in the consolidated financial statements since that date. Refer to Note 5, "Business Combinations," for additional information.

Change in Contingent Consideration

During the first quarter of 2014, the Company recorded a non-cash gain of $29.4 million related to a change in the Company's assessment of potential future payments related to its ALD reporting unit. Refer to Note 5, "Business Combinations," for additional information.

Veeco Instruments Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Acquisition of ALD

During the fourth quarter of 2013, the Company acquired ALD. The results of operations of ALD have been included in the consolidated financial statements since that date. Refer to Note 5, “Business Combinations,” for additional information.

Schedule II — Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions: Charged (Credited) to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Deducted from asset accounts:			*(in thousands)*		
Year ended December 31, 2014					
Allowance for doubtful accounts	$ 2,438	$ (1,814)	$ 325	$ (218)	$ 731
Valuation allowance in net deferred tax assets	7,753	27,156	—	—	34,909
	$ 10,191	$ 25,342	$ 325	$ (218)	$ 35,640
Year ended December 31, 2013					
Allowance for doubtful accounts	$ 492	$ 1,946	$ —	$ —	$ 2,438
Valuation allowance in net deferred tax assets	4,708	2,420	625	—	7,753
	$ 5,200	$ 4,366	$ 625	$ —	$ 10,191
Year ended December 31, 2012					
Allowance for doubtful accounts	$ 468	$ 198	$ —	$ (174)	$ 492
Valuation allowance in net deferred tax assets	1,765	2,943	—	—	4,708
	$ 2,233	$ 3,141	$ —	$ (174)	$ 5,200

Exhibit 2.1

SECURITIES PURCHASE AGREEMENT

BY AND AMONG

SOLID STATE EQUIPMENT HOLDINGS LLC,

CERTAIN SECURITYHOLDERS THEREOF,

VEECO INSTRUMENTS INC.

AND

THOSE CERTAIN OTHER PARTIES HERETO.

Dated as of December 4, 2014

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT, (the " **Agreement** "), dated as of December 4, 2014, by and among: (i) Solid State Equipment Holdings LLC, a limited liability company existing under the laws of Delaware (the " **Company** "); (ii) Summit Partners Private Equity Fund VII-A, L.P., Summit Partners Private Equity Fund VII-B, L.P., Summit Partners PE VII, L.P., Summit Partners Subordinated Debt Fund IV-A, L.P., Summit Partners Subordinated Debt Fund IV-B, L.P., Summit Partners SD IV, L.P., Summit Investors I, LLC, Summit Investors I (UK), L.P. (the " **Summit Sellers** "); (iii) Microcircuit Specialists Inc., a corporation existing under the laws of Pennsylvania (" **NPC** "); (iv) Herman Itzkowitz, John Voltz, David Lam, Vincent Amorosi, Tom Werthan, and Erwan Le Roy (the " **Employee Sellers** " and, together with the Summit Sellers and NPC, the " **Sellers** "); (v) SP SD IV-B SSEC Blocker Corp., a Delaware corporation and SP PE VII-B SSEC Blocker Corp., a Delaware corporation (the " **Blocker Corps** "); and (vi) Veeco Instruments Inc., a corporation existing under the laws of Delaware (the " **Buyer** ").

W I T N E S S E T H:

WHEREAS , the Sellers, collectively, hold, or will at the Closing hold, 78.03% of the units of the Company (the " **Company Units** ") and 100% of the stock of the Blocker Corps (which, at the Closing, will hold the remaining 21.97% of the Company Units) (the " **Blocker Corp Shares** " and together with the Company Units, the " **Purchased Securities** ");

WHEREAS , as a condition and material inducement to the willingness of Buyer to enter into this Agreement, concurrently with the execution and delivery of this Agreement, the employees of the Company listed in EXHIBIT A have entered into new employment arrangements with Buyer or its designee (the " **Employment Arrangements** ") to become effective upon the Closing Date; and

WHEREAS , the Sellers desire to sell to the Buyer and the Buyer desires to purchase from the Sellers the Purchased Securities.

NOW, THEREFORE , in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 Certain Definitions .

(a) For purposes of this Agreement, the following terms shall have the meanings specified in this Section 1.1 :

“ **Adjustment Escrow Amount** ” shall have the meaning set forth in Section 3.4(l) .

“ **Affiliate** ” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, and the term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

“ **Agreement** ” shall have the meaning set forth in the Preamble.

“ **Balance Sheet** ” shall have the meaning set forth in Section 4.6(a) .

“ **Balance Sheet Date** ” means September 30, 2014.

“ **Blocker Corp Breaches** ” shall have the meaning set forth in Section 10.1(a) .

“ **Blocker Corp Documents** ” shall have the meaning set forth in Section 5.2 .

“ **Blocker Corp Sellers** ” means, (i) with respect to SP PE VII-B SSEC Blocker Corp., Summit Partners Private Equity Fund VII-B, L.P. and (ii) with respect to SP SD IV-B SSEC Blocker Corp., Summit Partners Subordinated Debt Fund IV-B, L.P.

“ **Blocker Corp Shares** ” shall have the meaning set forth in the Recitals.

“ **Blocker Corps** ” shall have the meaning set forth in Preamble.

“ **Blocker LP** ” (a) as to SP PE VII-B SSEC Blocker Corp. means SP PE VII-B SSEC Holdings, L.P., and (b) as to SP SD IV-B SSEC Blocker Corp., means SP SD IV-B SSEC Holdings, L.P.

“ **Board** ” means the Board of Managers of the Company.

“ **Business Day** ” means any day of the year on which national banking institutions in New York, New York and Boston, Massachusetts are open to the public for conducting business and are not required or authorized to close.

“ **Buyer** ” shall have the meaning set forth in the Preamble.

“ **Buyer Disclosure Schedule** ” shall have the meaning set forth in the Preamble to Article VII .

"**Buyer Documents**" shall have the meaning set forth in Section 7.2.

"**Buyer Indemnified Person(s)**" shall have the meaning set forth in Section 10.1(a).

"**Cap**" shall have the meaning set forth in Section 10.1(d).

"**Cash**" means the amount of cash and bank deposits, and certificates of deposit and other cash equivalents less escrowed amounts or other restricted cash balances and less the amounts of any unpaid checks, drafts and wire transfers issued on or prior to the date of determination, calculated in accordance with GAAP.

"**Closing**" shall have the meaning set forth in Section 2.1.

"**Closing Cash**" means the aggregate Cash of the Company and the Subsidiaries, and the Cash of the Blocker Corps in excess of their Liabilities that are not included in Current Liabilities pursuant to clause (a) of the definition of Current Liabilities, in each case as of the Cut-off Time.

"**Closing Date**" shall have the meaning set forth in Section 2.1.

"**Closing Working Capital**" means the difference of: (i) the Current Assets of the Company, Blocker Corps and the Subsidiaries as of the Cut-off Time; less (ii) the Current Liabilities of the Company, Blocker Corps and the Subsidiaries as of the Cut-off Time.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Company**" shall have the meaning set forth in the Preamble.

"**Company Benefit Plan**" shall have the meaning set forth in Section 4.14(a).

"**Company Breaches**" shall have the meaning set forth in the Section 10.1(a).

"**Company Documents**" shall have the meaning set forth in Section 4.2.

"**Company Indemnified Persons**" shall have the meaning set forth in Section 10.5.

"**Company Units**" shall have the meaning set forth in the Recitals.

"**Competing Transaction**" shall have the meaning set forth in Section 8.9.

“ **Confidential Information** ” means any information with respect to the Company or any of the Subsidiaries, including methods of operation, customer lists, products, prices, fees, costs, Technology, inventions, trade secrets, know-how, Software, marketing methods, plans, personnel, suppliers, competitors, markets or other specialized information or proprietary matters. “Confidential Information” does not include information that: (i) is generally available to other participants in the Company’s industry on the date of this Agreement; or (ii) becomes generally available to the public other than as a result of a disclosure not otherwise permissible hereunder.

“ **Confidentiality Agreement** ” shall have the meaning set forth in Section 8.6 .

“ **Contract** ” means any written contract, agreement, indenture, note, bond, mortgage, loan, instrument, lease, or license which is currently in-force and legally binding.

“ **Current Assets** ” means: (ii) accounts receivable, net of the accrued allowance for doubtful accounts; (ii) inventory, net of the accrued allowance for obsolete inventory; and (iii) pre-paid deposits with respect to leases, insurance policies (including employee health and disability insurance plans) and tradeshows and pre-paid travel expenses.

“ **Current Liabilities** ” means: (i) accounts payable; (ii) accrued expenses, including without limitation, accrued wages and other employee compensation (including, without limitation, cash bonuses and employer matching contributions under Section 401(k) of the Code), accrued commissions, accrued paid leave, accrued warranty liabilities and accrued foreign office liabilities; and (iii) credits and advance payments from customers, and, for the avoidance of doubt, excluding (a) Liabilities with respect to Taxes; (b) Liabilities with respect to Indebtedness; (c) Liabilities to the Sellers, solely in their role as securityholders of the Company or the Blocker Corps, including accrued dividends; and (d) Liabilities with respect to Transaction Expenses; provided , however , that the Liabilities referenced in the preceding clauses (c) and (d) shall be excluded from Current Liabilities only to the extent any such Liabilities have already been taken into account in determining the Purchase Price on the Closing Date.

“ **Cut-off Time** ” means 12:01am Eastern Time on the Closing Date.

“ **Damages** ” shall have the meaning set forth in Section 10.1(a) .

“ **Debt Payoff Amounts** ” means the amount of Indebtedness of the Company, inclusive of any prepayment penalties, redemption premiums or breakage fees actually incurred, as set forth on Schedule 3.3 .

“ **Deductible** ” shall have the meaning set forth in Section 10.1(c) .

“ **Disclosure Schedule** ” shall have the meaning set forth in the Preamble to Article IV .

“ **Employee** ” shall have the meaning given in Section 4.14(a) .

“ **Employee Sellers** ” shall have the meaning set forth in Preamble.

“ **Environmental Law** ” means any applicable Law relating to (i) the generation, storage, transport, handling, management, treatment, release or remediation of Hazardous Materials, including Laws governing worker exposure to Hazardous Materials, or (ii) the protection of human health, the environment or natural resources.

“ **Environmental Permits** ” shall have the meaning set forth in Section 4.20(a) .

“ **ERISA** ” means the Employee Retirement Income Security Act of 1974, as amended.

“ **Escrow Agent** ” shall have the meaning set forth in Section 10.7(a) .

“ **Escrow Agreement** ” shall have the meaning set forth in Section 9.1(f) .

“ **Estimated Closing Cash** ” shall have the meaning set forth in Section 3.4(a) .

“ **Estimated Closing Working Capital** ” shall have the meaning set forth in Section 3.4(a) .

“ **Estimated Working Capital Adjustment** ” means the amount, which may be positive or negative, equal to the Estimated Closing Working Capital minus the Net Working Capital Target.

“ **Excluded Matter** ” means any one or more of the following: (i) the effect of any change in the United States or foreign economies or securities or financial markets in general; (ii) the effect of any change that affects any industry or market in which the Company or the Subsidiaries operates provided that such change does not have a disproportionate impact on the Company as compared to other Persons in the industry in which the Company operates; (iii) the effect of any change arising in connection with any earthquake, hurricane or other natural disaster, hostilities, act of war, sabotage or terrorism or military action or any escalation or material worsening of any such hostilities, act of war, sabotage or terrorism or military action existing or underway as of the date hereof, which does not have a disproportionate impact on the Company as compared to other Persons in the industry in which the Company operates; (iv) the effect of any changes in applicable Laws or accounting rules applicable to the Company or industry in

which the Company operates; or (v) the execution, announcement, pendency or performance of this Agreement or the transactions contemplated hereby or any communication by Buyer or its Affiliates or representatives with respect thereto.

"**Final Adjustment**" means the amount, which may be positive or negative, equal to the Final Closing Cash Adjustment plus the Final Working Capital Adjustment.

"**Final Closing Cash**" means Closing Cash: (i) as shown in the Buyer's calculation delivered pursuant to Section 3.4(b) if no notice of disagreement with respect thereto is duly delivered pursuant to Section 3.4(d); or (ii) if such a notice of disagreement is delivered: (A) as agreed by the Seller Representative and the Buyer pursuant to Section 3.4(e); or (B) in the absence of such agreement, as shown in the Independent Accountant's calculation delivered pursuant to Section 3.4(e); provided, however, that in no event shall Final Closing Cash be more than the Seller Representative's calculation of Closing Cash delivered pursuant to Section 3.4(d) or less than the Buyer's calculation of Closing Cash delivered pursuant to Section 3.4(b).

"**Final Closing Cash Adjustment**" means the amount, which may be positive or negative, equal to the Final Closing Cash minus the Estimated Closing Cash.

"**Final Working Capital**" means Closing Working Capital: (i) as shown in the Buyer's calculation delivered pursuant to Section 3.4(b) if no notice of disagreement with respect thereto is duly delivered pursuant to Section 3.4(d); or (ii) if such a notice of disagreement is delivered: (A) as agreed by the Seller Representative and the Buyer pursuant to Section 3.4(e); or (B) in the absence of such agreement, as shown in the Independent Accountant's calculation delivered pursuant to Section 3.4(e); provided, however, that in no event shall Final Working Capital be more than the Seller Representative's calculation of Closing Working Capital delivered pursuant to Section 3.4(d) or less than the Buyer's calculation of Closing Working Capital delivered pursuant to Section 3.4(b).

"**Final Working Capital Adjustment**" means the amount, which may be positive or negative, equal to the Final Working Capital minus the Estimated Closing Working Capital.

"**Financial Statements**" shall have the meaning set forth in Section 4.6(a).

"**Fraud Claim**" means, with respect to a claim against any Person, the knowing or intentional fraud or willful misrepresentation of such Person with respect to the matters addressed in this Agreement.

"**Fundamental Representations**" shall have the meaning set forth in Section 9.1(a).

“ **Fundamental Representation Cap** ” shall have the meaning set forth in Section 10.1(d) .

“ **GAAP** ” means generally accepted accounting principles in the United States, applied on a consistent basis, except as set forth on EXHIBIT B .

“ **Governmental Body** ” means any government or governmental or regulatory body thereof, or political subdivision thereof, whether federal, state, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private).

“ **Hazardous Materials** ” means (i) any petroleum or petroleum products, asbestos in any form, and polychlorinated biphenyls, and (ii) any chemicals, materials or substances, whether solid, liquid or gas defined as or included in the definition of “contaminant,” “pollutant,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous wastes,” “restricted hazardous wastes,” “toxic substances,” or “toxic pollutants” under any applicable Environmental Law.

“ **HSR Act** ” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and the rules and regulations promulgated thereunder.

“ **Income Tax Preparation Expenses** ” means the out-of-pocket third party expenses incurred by Buyer and its Affiliates for preparation of income Tax Returns of the Company and its Subsidiaries that are Buyer Prepared Returns pursuant to Section 12.1(d)(ii) by the same accounting firm that prepared the most recently filed income Tax Returns of the Company and the Subsidiaries; provided , however , that in no event shall Income Tax Preparation Expenses exceed $50,000.

“ **Indebtedness** ” of any Person means, without duplication: (i) the principal, accreted value, accrued and unpaid interest, prepayment and redemption premiums or penalties (if any), unpaid fees or expenses and other monetary obligations in respect of: (A) indebtedness of such Person for money borrowed; and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable and other accrued current liabilities arising in the Ordinary Course of Business (other than the current liability portion of any indebtedness for borrowed money)); (iii) all obligations of such Person under leases required to be capitalized in accordance with GAAP; (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction; (v) all obligations of such Person under interest rate or currency swap transactions (valued at the termination value thereof); (vi) all obligations of the type

referred to in clauses (i) through (v) of any Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise; and (vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by (or for which the holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person).

" **Indemnification Claim** " shall have the meaning set forth in Section 10.2(a) .

" **Indemnified Party** " shall have the meaning set forth in Section 10.2(a) .

" **Indemnifying Party** " shall have the meaning set forth in Section 10.2(a) .

" **Indemnitees** " shall have the meaning set forth in Section 8.7(a) .

" **Indemnity Escrow Amount** " shall have the meaning set forth in Section 10.7(a) .

" **Independent Accountant** " means an independent accounting firm on which the Seller Representative and the Buyer mutually agree.

" **Individual Seller Breaches** " shall have the meaning set forth in Section 10.1(a) .

" **Intellectual Property** " means all intellectual property rights arising from or in respect of the following: (i) all patents and applications therefor, including all related continuations, divisionals, continuations-in-part, renewals, extensions, provisionals, reissues and reexaminations; (ii) all trademarks (registered and unregistered), service marks, trade names, service names, brand names, trade dress rights, logos, Internet domain names, corporate names, together with the goodwill associated with any of the foregoing, and all applications, registrations and renewals thereof; (iii) all copyrights, works of authorship, designs, data and database rights, and registrations, applications and moral rights therefor; (iv) all trade secrets and other confidential information; (v) all mask works, and registrations and applications for registration thereof; (vi) all Software and Technology; and (vii) copies and tangible embodiments thereof (in whatever form or medium).

" **IRS** " means the United States Internal Revenue Service and, to the extent relevant, the United States Department of Treasury.

" **Knowledge of the Company** " means the actual knowledge of Herman Itzkowitz, Thomas Werthan, Vince Amorosi, Erwan Le Roy, James McDevitt, Laura

Mauer and John Voltz (and, with respect to Section 4.22 only, Heinz Kumshier and Shao-Li Chu), after reasonable inquiry.

" **Law** " means any applicable federal, state, local law, statute, code, ordinance, rule, regulation, Order or other legal requirement of any Governmental Body.

" **Legal Proceeding** " means any judicial, administrative or arbitral action, mediation, investigation, inquiry, suit, proceeding (public or private) or claim (including counterclaims) by or before a Governmental Body.

" **Liability** " means any debt, loss, damage, adverse claim, fines, penalties, liability or obligation (whether direct or indirect, known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, matured or unmatured, determined or determinable, liquidated or unliquidated, or due or to become due, and whether in contract, tort, strict liability or otherwise), and including all costs and expenses relating thereto including all fees, disbursements and expenses of legal counsel, experts, engineers and consultants and costs of investigation.

" **Lien** " means any lien, encumbrance, pledge, mortgage, deed of trust, security interest, claim, lease, charge, option, right of first refusal or first offer, easement, servitude or other transfer restriction.

" **Material Adverse Effect** " means a material adverse effect, other than as a result of any Excluded Matter, on (i) the business, assets, liabilities, properties, results of operations or financial condition of the Company and the Subsidiaries, taken as a whole, or (ii) the right or ability of the Company to consummate the Transaction.

" **Material Contracts** " shall have the meaning set forth in Section 4.12(a) .

" **Maximum Premium** " shall have the meaning set forth in Section 8.7(c) .

" **NPC** " shall have the meaning set forth in Preamble.

" **Net Working Capital Target** " means $11,549,000.

" **Notice of Claim** " shall have the meaning set forth in Section 10.2(a) .

" **Order** " means any order, injunction, judgment, doctrine, decree, ruling, writ, assessment or arbitration award of a Governmental Body.

" **Ordinary Course of Business** " means the ordinary and usual course of day-to-day operations of the business of the Company and the Subsidiaries through the date hereof consistent with past practice, including with respect to amounts.

“ **Permits** ” means any approvals, authorizations, consents, licenses, permits or certificates of a Governmental Body.

“ **Permitted Exceptions** ” means: (i) all defects, exceptions, restrictions, easements, rights of way and encumbrances disclosed in policies of title insurance which have been delivered to Buyer; (ii) statutory liens for current Taxes, assessments or other governmental charges not yet due, provided an appropriate reserve has been established therefor in the Financial Statements to the extent required in accordance with GAAP; (iii) mechanics’, carriers’, workers’, and repairers’ Liens arising or incurred in the Ordinary Course of Business that are not material to the business, operations and financial condition of the Company property so encumbered and that are not resulting from a breach, default or violation by the Company or any of the Subsidiaries of any Contract or Law; and (iv) zoning, entitlement and other land use and environmental regulations by any Governmental Body, provided that such regulations have not been violated.

“ **Person** ” means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Body or other entity.

“ **Personal Property Leases** ” shall have the meaning set forth in Section 4.10(d) .

“Pre-Closing Tax Periods ” means any taxable period ending on or before the Closing Date, and the portion of any Straddle Period ending on the Closing Date.

“ **Pre-Closing Taxes** ” means Taxes for any Pre-Closing Tax Period (determined in the case of a Straddle Period, in accordance with the allocation provisions of Section 10.1(b)(iii)).

“ **Pro-rata Portion** ” means, with respect to any Seller, that percentage equal to: (i) (A) if such Seller is not a Blocker Corp Seller, the number of units of the Company directly held by such Seller immediately prior to Closing; or (B) if such Seller is a Blocker Corp Seller, the number of units of the Company indirectly held by such Seller immediately prior to Closing; divided by (ii) the total number of units of the Company issued and outstanding immediately prior to Closing.

“ **Proskauer** ” shall have the meaning set forth in Section 12.14(a) .

“ **Purchase Price** ” means: (i) $150,000,000; plus (ii) the Estimated Working Capital Adjustment (which may be positive or negative); plus (iii) Closing Cash less (iv) Debt Payoff Amounts; and less (v) Transaction Expenses, to the extent determinable on the Closing Date.

“ **Purchased Securities** ” shall have the meaning set forth in the Recitals.

“ **Real Property Lease(s)** ” shall have the meaning set forth in Section 4.10(b) .

“ **Related Persons** ” shall have the meaning set forth in Section 4.16 .

“ **Release** ” has the meaning set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

“ **Released Parties** ” shall have the meaning set forth in Section 8.12 .

“ **Secondary Indemnitors** ” shall have the meaning set forth in Section 8.7(b) .

“ **Securities Act** ” means the U.S. Securities Act of 1933, as amended.

“ **Seller Representative** ” shall have the meaning set forth in Section 12.13(a) .

“ **Sellers** ” shall have the meaning set forth in the Preamble.

“ **Seller Documents** ” shall have the meaning set forth in Section 6.2 .

“ **Selling Party Breaches** ” shall have the meaning set forth in Section 10.1(a) .

“ Software ” means any and all computer programs (except “off the shelf” software that is generally commercially available), whether in source code or object code; databases and compilations, whether machine readable or otherwise; descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing; and all documentation including user manuals and other training documentation related to any of the foregoing.

“ **Straddle Period** ” means any taxable period that includes but does not end on the Closing Date.

“ **Subsidiary** ” means any Person of which a majority of the outstanding share capital, voting securities or other voting equity interests are owned, directly or indirectly, by the Company.

“ **Summit Sellers** ” shall have the meaning set forth in Preamble.

“ **Tax** ” or “ **Taxes** ” means: (i) any federal, state, local or foreign taxes, duties, and similar governmental fees, levies, assessments or charges, of any kind whatsoever, including all net income, gross receipts, capital, sales, use, ad valorem, value

added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security (or similar), unemployment, excise, severance, stamp, occupation, property, customs duties, unclaimed property, escheat, environmental, registration, alternative or minimum or estimated tax; (ii) any penalties, fines, additions to tax or additional amounts imposed by any Taxing Authority in connection with either any item described in clause (i) or any obligation to file any Tax Return with a Taxing Authority or to provide a copy of a Tax Return to any other Person; (iii) any interest on any of the foregoing and (iv) any liability in respect of any items described in clauses (i) through (iii) payable by reason of Contract, assumption, successor liability, operation of Law, Treasury Regulation Section 1.1502-6(a) (or any predecessor or successor thereof or any analogous or similar provision under Law) or otherwise.

" **Tax Benefit** " means the reduction in the amount of Taxes which otherwise would have been incurred by a Buyer Indemnified Person by reason of an event or circumstance giving rise to a claim for Damages that is indemnified pursuant to Article X , taking into account any related loss of a tax attribute in computing such refund or reduction in the amount of Taxes which otherwise would have been incurred by all Buyer Indemnified Persons to the extent necessary to cause the payment to the Buyer Indemnified Person to correspond to the after-tax economic loss to all Buyer Indemnified Persons from the event or circumstance giving rise to such claim.

" **Tax Indemnity** " shall have the meaning set forth in Section 10.1(c) .

" **Tax Return** " means any return, declaration, report, claim for refund, information return, election or statement, and any schedule or attachment thereto, actually filed or required to be filed with respect to any Tax (including any amendment thereof) and including, where permitted or required, combined, consolidated or unitary returns for any group of entities that includes the Company, the Subsidiaries or any of their Affiliates.

" **Taxing Authority** " means any Governmental Body having any authority to impose, assess, determine or collect any Tax.

" **Technology** " means, collectively, all information, designs, plans, proposals, formulae, algorithms, procedures, methods, techniques, ideas, know-how, research and development, results, technical data, programs, subroutines, tools, materials, specifications, processes, compositions, inventions (whether patentable or unpatentable and whether or not reduced to practice), apparatus, creations, improvements, works of authorship and other similar materials, and all recordings, graphs, drawings, reports, analyses, and other writings, and other tangible embodiments of the foregoing, in any form whether or not specifically listed herein, and all related technology.

" **Termination Date** " shall have the meaning set forth in Section 11.1(a) .

" **Third-Party Claim** " shall have the meaning set forth in Section 10.2(a) .

" **Transaction** " means the transactions contemplated by the Transaction Documents.

" **Transaction Documents** " means this Agreement and all other agreements and instruments to be executed by the Buyer, the Company or the Sellers at or prior to the Closing pursuant to this Agreement.

" **Transaction Expenses** " means the aggregate amount of all out-of-pocket fees and expenses incurred at or prior to the Closing and payable by or on behalf of the Company in connection with: (x) the negotiation, preparation and execution of the Transaction Documents; and (y) the performance and consummation of the Transaction, in each case to the extent such fees and expenses are unpaid as of immediately before or at the Closing; provided, however, that no such fees or expenses that result from any action taken at the direction of the Buyer and not required or contemplated to be performed by the Company or the Sellers by the Transaction Documents at or prior to the Closing shall be included in Transaction Expenses, it being agreed for the avoidance of doubt that the termination of the employment of any Employee at or after Closing shall not be treated as a Transaction Expense.

" **Treasury Regulation** " the regulations promulgated under the Code, as amended from time to time.

" **Wells Credit Agreement** " means that certain Credit Agreement, dated as of June 30, 2011 by and among the Company, Solid State Equipment LLC and Wells Fargo Bank, National Association, as amended by the Amendment to Loan and Security Agreement dated as of November 2, 2012, and as modified by the Consent and Waiver to Credit Agreement, dated March 31, 2014, as may have been amended, restated, amended and restated or otherwise modified prior to the date hereof.

1.2 Other Definitional and Interpretive Matters .

(a) Rules of Interpretation . Unless otherwise expressly provided, for purposes of this Agreement, the following rules of interpretation shall apply:

(i) Calculation of Time Period . When calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

(ii) Dollars . Any reference in this Agreement to " **$** " shall mean U.S. dollars. The specification of any dollar amount in the representations and

warranties or otherwise in this Agreement or in the Schedules is not intended and shall not be deemed to be an admission or acknowledgment of the materiality of such amounts or items, nor shall the same be used in any dispute or controversy between the parties to determine whether any obligation, item or matter (whether or not described herein or included in any schedule) is or is not material for purposes of this Agreement.

(iii) Schedules. The Schedules to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement. All Schedules annexed hereto or provided herewith are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any matter or item disclosed on one Schedule shall be deemed to have been disclosed on each other Schedule, in which it is readily apparent on the face of such disclosure that the information is required to be included. Disclosure of any item on any Schedule shall not constitute an admission or indication that such item or matter is material or would reasonably be expected to have a Material Adverse Effect. No disclosure on a Schedule relating to a possible breach or violation of any Contract, Law or Order shall be construed as an admission or indication that breach or violation exists or has actually occurred. Any capitalized terms used in any Schedule but not otherwise defined therein shall be defined as set forth in this Agreement. Unless the context otherwise requires, any Schedule referred to in this Agreement shall mean the applicable Schedule included in the Disclosure Schedule.

(iv) Gender and Number. Any reference in this Agreement to gender shall include all genders, and words imparting the singular number only shall include the plural and vice versa.

(v) Headings. The provision of a Table of Contents, the division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement. All references in this Agreement to any " Section " are to the corresponding Section of this Agreement unless otherwise specified.

(vi) Herein. The words such as "herein," "hereinafter," "hereof," and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires.

(vii) Including. The word "including" or any variation thereof means (unless the context of its usage otherwise requires) "including, without limitation" and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

(viii) Reflected On or Set Forth In. An item arising with respect to a specific representation or warranty shall be deemed to be "reflected on" or "set forth in" a balance sheet or financial statements, to the extent any such phrase appears in such representation or warranty, if: (a) there is a reserve, accrual or other similar item underlying a number on such balance sheet or financial statements that is attributed to such item; or (b) such item is otherwise specifically set forth on the balance sheet or financial statements, or in the notes thereto.

(b) Joint Drafting. The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

ARTICLE II

CLOSING

2.1 Closing. The closing of the sale of the Purchased Securities (the "**Closing**") shall take place at 9:00 AM Eastern Time on a date to be specified by the parties, which date shall be no later than the second Business Day after satisfaction or waiver of the conditions set forth in Article VIII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions at such time), by electronic transmission, unless another time, date or place is agreed to in writing by the parties hereto. The date on which the Closing actually occurs is referred to in this Agreement as the "**Closing Date**".

2.2 Sale and Purchase of the Purchased Securities. Upon the terms and subject to the conditions contained herein, on the Closing Date, the Sellers shall sell, assign, transfer, convey and deliver to the Buyer, and the Buyer shall purchase from the Sellers, the Purchased Securities, free and clear of all Liens, other than Permitted Exceptions, pursuant to this Agreement. The Company and the Blocker Corps shall duly record the transfer of such Purchased Securities, as applicable, in their books and records.

ARTICLE III

PURCHASE PRICE

3.1 Payments to Sellers. At the Closing, upon the terms and conditions of this Agreement and subject to Section 3.6, the Buyer shall pay by wire transfer of immediately available United States funds, to the Sellers, for the Purchased

Securities, the Purchase Price less the Indemnity Escrow Amount less the Adjustment Escrow Amount, pursuant to the payment schedule set forth on Schedule 3.1 .

3.2 Payments to Escrow Agent . At the Closing, upon the terms and conditions of this Agreement, the Buyer shall pay by wire transfer of immediately available United States funds, to the Escrow Agent, on behalf of the Sellers, an amount equal to the Indemnity Escrow Amount and an amount equal to the Adjustment Escrow Amount to the respective accounts set forth on Schedule 3.2 .

3.3 Debt Pay Off . At the Closing, upon the terms and conditions of this Agreement, the Buyer shall pay by wire transfer of immediately available United States funds, the Debt Payoff Amounts, on behalf of the Company, to the respective accounts set forth on Schedule 3.3 .

3.4 Purchase Price Adjustment .

(a) Estimated Statements . Schedule 3.4(a)(i) contains a written statement, together with reasonable supporting documents, reflecting the Company's good faith estimate of Closing Working Capital (the " **Estimated Closing Working Capital** ") prepared utilizing the accounting principles, methods, procedures and practices used to prepare the sample statement for 10/31/2014 included on Schedule 3.4(a)(ii) . Prior to the Closing, the Company shall provide its good faith estimate of Closing Cash (the " **Estimated Closing Cash** "). The Estimated Closing Cash and the Estimated Closing Working Capital shall be binding on the parties hereto for purposes of determining the Purchase Price.

(b) Closing Statements . As promptly as practicable, but no later than 60 days after the Closing Date, the Buyer shall cause to be prepared and delivered to the Seller Representative a statement setting forth the Closing Cash and Closing Working Capital prepared utilizing the accounting principles, methods, procedures and practices used to prepare Schedule 3.4(a)(i) and underlying documentation supporting the Buyer's calculation of the Closing Cash and the Closing Working Capital.

(c) Access to Records . During the 30 day period following delivery of the statement setting forth the Closing Cash and the Closing Working Capital to the Seller Representative, the Seller Representative and its advisors shall have the right to reasonable access to the Company's books and records, appropriate staff members and such other information as the Seller Representative shall reasonably request in order to review the Closing Cash and the Closing Working Capital.

(d) Notice of Disagreement . The statement setting forth the Closing Cash and the Closing Working Capital delivered by the Buyer to the Seller Representative shall be conclusive and binding on all parties unless the Seller Representative, within 30 days after delivery of that statement setting forth the Closing

Cash and the Closing Working Capital, delivers a notice to the Buyer stating that the Seller Representative disagrees with such calculations and specifying in reasonable detail those items or amounts as to which the Seller Representative disagrees and the basis therefor.

(e) Dispute Resolution. If a notice of disagreement is duly delivered pursuant to Section 3.4(d), the Seller Representative and the Buyer shall, during the 15 days following such delivery, use their commercially reasonable efforts to reach agreement on the disputed items or amounts in order to determine, as may be required, the amount of the Closing Cash and/or the Closing Working Capital. If during such period, the Seller Representative and the Buyer are unable to reach such agreement, they shall promptly thereafter cause the Independent Accountant to review this Agreement and the disputed items or amounts for the purpose of calculating the Closing Cash or Closing Working Capital, as applicable.

(f) Independent Accountant's Engagement. Each party agrees to execute, if requested by the Independent Accountant, a reasonable engagement letter.

(g) Cooperation with Independent Accountant. The Buyer and the Seller Representative shall cooperate with the Independent Accountant and promptly provide all documents and information requested by the Independent Accountant.

(h) Independent Accountant's Report. In making any such calculation(s), the Independent Accountant shall consider only those items or amounts in the Closing Cash and Closing Working Capital as to which the Seller Representative has disagreed in its notice of disagreement duly delivered pursuant to Section 3.4(d). The Independent Accountant shall deliver to the Seller Representative and the Buyer, as promptly as practicable (but in any case no later than 30 days from the date of engagement), a report setting forth such calculation. Such report shall be final and binding upon the Sellers and the Buyer, shall be deemed a final arbitration award that is binding on the Buyer and the Sellers, and neither the Buyer nor any Sellers shall seek further recourse in courts or other tribunals, other than to enforce such report.

(i) Cost of Review. The Independent Accountant shall determine the allocation of the cost of its review and report based on the inverse of the percentage its determination (before such allocation) bears to the total amount of the items in dispute as originally submitted to Independent Accountant. For example, should the items in dispute total in amount to $1,000 and the Independent Accountant awards $600 in favor of the Sellers' position, 60% of the costs of its review would be borne by the Buyer and 40% of the costs would be borne by the Sellers.

(j) Positive Final Adjustment. If the Final Adjustment is a positive number, the Buyer shall pay to the Sellers an amount equal to the Final Adjustment by

wire transfer of immediately available United States funds within 3 Business Days of the determination of such Final Adjustment.

(k) Negative Final Adjustment. If the Final Adjustment is a negative number, the Sellers shall pay to the Company an amount equal to the absolute value of the Final Adjustment by wire transfer of immediately available United States funds within 3 Business Days of the determination of such Final Adjustment.

(l) Adjustment Escrow. On the Closing Date, the Buyer shall pay to the Escrow Agent, in immediately available funds, an amount equal to $1,000,000 (the "**Adjustment Escrow Amount**"), in accordance with the terms of this Agreement and the Escrow Agreement. Any payment the Sellers are obligated to make to the Company pursuant to Section 3.4(k) shall: (i) first be paid by release of funds to the Company from the Adjustment Escrow Amount by the Escrow Agent within 5 Business Days after the date of notice of any sums due and owing is given to the Seller Representative (with a copy to the Escrow Agent pursuant to the Escrow Agreement) by the Buyer and shall accordingly reduce the Adjustment Escrow Amount; and (ii) second, to the extent the Adjustment Escrow Amount is insufficient to pay any remaining sums due, then, in the Company's sole discretion, either (A) any remaining sums due shall be paid from the Indemnity Escrow Amount; or (B) the Sellers shall, severally and not jointly, be required to pay their respective Pro-rata Portion of any remaining sums due to the Company by wire transfer of immediately available funds within 5 Business Days after the date of such determination.

(m) Release of Escrow. Within 5 days following: (i) the payment of the Final Adjustment; or (ii) a final determination of the Closing Cash and Closing Working Capital pursuant to this Section 3.4 determining that no Final Adjustment shall be paid, the Escrow Agent shall release the Adjustment Escrow Amount (to the extent not utilized to pay the Company for any Final Adjustment) to the Sellers.

(n) Conflict Waiver. The Buyer acknowledges and waives any actual or potential conflict of Company staff members assisting the Seller Representative and its advisors as described in this Section 3.4 and shall not, and shall cause the Company to not, prevent such access by the Seller Representative.

3.5 Purchase Price Allocation.

(a) Tax Allocation among Purchased Securities. For all U.S. federal income tax purposes, the Sellers and the Buyer agree (a) to allocate the Purchase Price to the Blocker Corp Shares of each Blocker Corp based on the Purchase Price payable to each Blocker Corp Seller as set forth on Schedule 3.1, and to allocate the excess of the Purchase Price over the amount allocated to the Blocker Corp Shares to the Company Units and (b) to treat any liabilities of the Company and all other items

properly includible in the amount realized by the Sellers on the sale of the Purchased Securities for U.S. federal income tax purposes, the Final Adjustment and any payments pursuant to any indemnification obligation, as an adjustment to the purchase price of the Purchased Securities to which the liability, Final Adjustment or indemnification payment relates.

(b) Tax Allocation of Purchase Price among Certain Company Assets . The parties agree to negotiate in good faith after the Closing to agree on the identity and the fair market value of the Company's assets that are described in Section 751(a) of the Code. No later than ninety (90) days after the Closing the Buyer shall prepare and deliver to the Seller Representative an allocation schedule (the " **Allocation Schedule** ") that allocates among all of the Company's assets (in reasonable detail) the portion of the purchase price of the Company Units (consistent with Section 3.5(a) and otherwise as determined for U.S. federal income tax purposes) that the Buyer has reasonably determined is allocable to the assets of the Company. If the Seller Representative disagrees with the Buyer's Allocation Schedule, the Seller Representative may, within thirty (30) days after the Buyer's delivery of such statement, deliver a notice to the Seller Representative of disagreement with the Allocation Schedule, which shall identify the items with which the Seller Representative disagrees and the Seller Representative's proposed revisions to such schedule. The Seller Representative shall be deemed to have agreed with all other items and amounts contained in the Allocation Schedule. If the Seller Representative fails to object in writing to the allocation set forth in the Allocation Schedule within the thirty (30) day period following Buyer's delivery of such schedule, the parties will be deemed conclusively to have agreed to the Buyer's Allocation Schedule, and such schedule shall be final and binding upon parties and their respective Affiliates. If a notice a disagreement is delivered to the Buyer, either party may request that the disagreements be resolved by an independent accounting firm mutually acceptable to the parties. If submitted for resolution by such accounting firm, the Seller Representative and Buyer shall promptly direct the such firm to make a final determination of the items included in the Allocation Schedule that are in dispute, and the parties shall be bound by such resolution. The costs of the accounting firm's determination will be borne by the party requesting that such determination be made. For all income Tax purposes (including but not limited to the filing of Tax Returns) the Sellers and the Buyer shall be bound by the Allocation Schedule as finally agreed or determined under this Section 3.5(b) (as modified from time to time to reflect any subsequent adjustment to the Purchase Price).

3.6 Deferred Payment Seller .

(a) At the Closing, Buyer will reduce the Purchase Price otherwise payable pursuant to Section 3.1 to Herman Itzkowitz (the " **Deferred Payment Employee** ") in respect of his Purchased Securities by an amount equal to one million dollars ($1,000,000) (the " **Deferred Payment Amount** "), and will issue in lieu of the

Deferred Payment Amount a purchase money note (the " **Deferred Payment Note** ") in the form attached hereto as EXHIBIT C . If the Deferred Payment Employee remains an employee with Buyer, an Affiliate of Buyer, or an entity to which Buyer assigns or transfers the Deferred Payment Employee's employment (as applicable, a " **Buyer Employer** ") at all times between the Closing Date and the first anniversary thereof, then pursuant to the Deferred Payment Note one-half (1/2) of the Deferred Payment Amount will be paid to the Deferred Payment Employee within ten (10) Business Days following such first anniversary date (plus accrued interest). If the Deferred Payment Employee remains an employee with a Buyer Employer at all times between the Closing Date and the second anniversary thereof, then pursuant to the Deferred Payment Note the remaining one-half (1/2) of the Deferred Payment Amount (plus accrued interest) will be paid to the Deferred Payment Employee within ten (10) Business Days following such second anniversary date. In the event the Deferred Payment Employee ceases to be an employee of a Buyer Employer for any reason at any time prior to the second anniversary of the Closing Date, then the Deferred Payment Employee will forfeit the Deferred Payment Note and any portion of the Deferred Payment Amount not yet paid to the Deferred Payment Employee.

(b) Notwithstanding the foregoing, if the Deferred Payment Employee ceases to be an employee with a Buyer Employer prior to the second anniversary of the Closing Date due to the Deferred Payment Employee's employment being terminated by such Buyer Employer without Cause (as defined below), then pursuant to the Deferred Payment Note the entire portion of the Deferred Payment Amount that has not been paid to the Deferred Payment Employee prior to such termination will be paid to the Deferred Payment Employee, provided that within sixty (60) days after such termination the Deferred Payment Employee (i) executes and delivers to Buyer a release of claims in the form then used by Buyer for standard employee releases (such form, the " **Release** ") and (ii) lets such release become irrevocable, in which case such payment will be made within fourteen (14) days after the date on which the Release becomes irrevocable. To the extent that the Deferred Payment Amount is subject to Section 409A of the Code and the Deferred Payment Employee is a "specified employee" as defined in Section 409A of the Code, such payment will be deferred until the earliest of (A) the expiration of the six (6) month period measured from the date of the Deferred Payment Employee's termination of employment, (B) the date of the Deferred Payment Employee's death following such termination of employment, and (C) the earliest date that such payment could be made without subjecting the payment to the additional tax and interest imposed by Section 409A of the Code; provided , however , that such deferral will only be effected to the extent required to avoid adverse tax treatment to the Deferred Payment Employee. Upon expiration of the applicable deferral period, any payments which would otherwise have been made during that period will be paid to the Deferred Payment Employee (or the Deferred Payment Employee's estate, in the case of a termination by reason of death) in one lump sum. For purposes of the Deferred Payment Note, termination of the Deferred Payment Employee's employment will be deemed to have occurred only if such

termination is a "separation from service" within the meaning of Treasury Regulation1.409A-1(h). Additionally, for purposes of the Deferred Payment Note, " **Cause** " means, with respect to the termination of the Deferred Payment Employee's employment by a Buyer Employer, that such termination is for "Cause" as such term (or word of like import) is expressly defined in a then-effective written agreement between the Deferred Payment Employee and such Buyer Employer, or in the absence of such then-effective written agreement and definition, is based on, in the determination of such Buyer Employer, the Deferred Payment Employee's: (A) performance of any act or failure to perform any act in bad faith and to the detriment of such Buyer Employer or an Affiliate of such Buyer Employer; (B) dishonesty, intentional misconduct or material breach of any agreement with such Buyer Employer or an Affiliate of such Buyer Employer; or (C) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any Person.

(c) For all Tax purposes, the Buyer agrees (i) that it shall report (or cause to be reported) all payments made under this Section 3.6 as Buyer reports (or causes to be reported) all other payments described in Section 3.1 of this Agreement and consideration paid pursuant to Section 3.1 for Company Units and (ii) the payments made under this Section 3.6 shall be made without deduction or withholding of Tax.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANY

Except as set forth in the disclosure schedule delivered to the Buyer prior to the execution of this Agreement (the " **Disclosure Schedule** "), the Company hereby represents and warrants to the Buyer, as of the date hereof and as of the Closing, that:

4.1 Organization and Good Standing . The Company is a limited liability company, validly existing and in good standing under the laws of the State of Delaware and has all requisite limited liability company power and authority to own, lease and operate its properties and to carry on its business as now conducted and as currently proposed to be conducted. The Company is duly qualified or authorized to do business as a foreign limited liability company and is in good standing under the laws of each jurisdiction in which it owns or leases real property and each other jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing would not have a Material Adverse Effect.

4.2 Authorization of Agreement . The Company has all requisite limited liability company power and authority to execute and deliver this Agreement and each other agreement, document, or instrument or certificate contemplated by this Agreement and to be executed by the Company in connection with the consummation of

the Transaction (the " **Company Documents** "), to perform its obligations hereunder and thereunder, and to consummate the Transaction. The execution and delivery of this Agreement by the Company and the Company Documents and the consummation by the Company of the Transaction have been duly authorized by the Board of Managers of the Company, and no other limited liability company action on the part of the Company is necessary to authorize the execution, delivery and performance of this Agreement and each of the Company Documents and the consummation of the Transaction. This Agreement has been, and each of the Company Documents shall be, at or prior to the Closing, duly and validly executed and delivered by the Company and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each of the Company Documents when so executed and delivered will constitute, the legal, valid and binding obligations of the Company, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

4.3 Conflicts; Consents of Third Parties .

(a) Conflicts . None of the execution and delivery by the Company of this Agreement or the Company Documents, the consummation by the Company of the Transaction, or compliance by the Company with any of the provisions hereof or thereof shall conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, or acceleration of any obligation or give rise to loss of a benefit under, or give rise to any obligation of the Company to make any payment under, or to the increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Liens, other than Permitted Exceptions, upon any of the properties or assets of the Company or any Subsidiary under, any provision of: (i) the certificate of formation or limited liability company agreement of the Company or the Subsidiaries; (ii) any Contract or Permit to which the Company or any Subsidiary is a party or by which any of the properties or assets of the Company or any of the Subsidiaries are bound, other than such conflicts, violations, defaults, terminations or cancellations that would not be reasonably expected to have a Material Adverse Effect; (iii) any Order applicable to the Company or any Subsidiary or by which any of the properties or assets of the Company or any Subsidiary are bound; or (iv) any applicable Law.

(b) Third-Party Consents . No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Governmental Body, is required, nor is any material consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any other Person required, on the part of the Company or the Subsidiaries in connection with the

execution and delivery by the Company of this Agreement or the Company Documents or the compliance by the Company with any of the provisions hereof or thereof, or the consummation by the Company of the Transaction, except for compliance with the applicable requirements of the HSR Act.

4.4 Capitalization.

(a) Authorized and Outstanding Units. The Company is authorized to issue 722,000 Company Units. The class and ownership of each of the outstanding Company Units: (i) as of the date hereof, is as set forth on Schedule 4.4(a)(i); and (ii) as of the Closing, shall be as set forth on Schedule 4.4(a)(ii). The Purchased Securities represent, in the aggregate, on a direct and indirect basis, 100% of the outstanding equity of the Company. All of the outstanding Company Units were duly authorized for issuance and are validly issued and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights.

(b) Issuance and Disposition of Units. There is no existing option, warrant, call, right or Contract of any character to which the Company is a party requiring, and there are no securities of the Company outstanding which upon conversion or exchange would require, the issuance of any membership interest or other equity securities of the Company or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase membership interest or other equity securities of the Company. Except for the Company Documents, the Company is not a party to any voting trust or other Contract with respect to the voting, redemption, sale, transfer or other disposition of any membership interest or other equity securities of the Company. There are no obligations, contingent or otherwise, of the Company or any Subsidiary to (i) repurchase, redeem or otherwise acquire any Company Units or other equity interests of any Subsidiary, or (ii) make any investment in (in the form of a loan, capital contribution or otherwise), or provide any guarantee with respect to the obligations of, any Person. There are no outstanding stock appreciation, phantom stock, profit participation or similar rights with respect to the Company or any of the Subsidiaries. There are no bonds, debentures, notes or other indebtedness of the Company or the Subsidiaries having the right to vote (or, convertible into, or exchangeable for, securities having the right to vote) on any matters on which equity holders of the Company or the Subsidiaries may vote.

(c) Subsidiaries.

(i) Existence. The name, entity type and jurisdiction of each Subsidiary is as set forth on Schedule 4.4(c). Each Subsidiary is validly existing and in good standing under the laws of its applicable jurisdiction. Each Subsidiary has all requisite corporate or entity power and authority to own, lease and operate its properties and to carry on its business as now conducted. Each

Subsidiary is duly qualified or authorized to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which it owns or leases real property and each other jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing would not have a Material Adverse Effect.

(ii) Capitalization of the Subsidiaries. The authorized, issued and outstanding equity securities of each of the Subsidiaries and the ownership of such equity securities is as set forth on Schedule 4.4(c). The outstanding capital stock or other equity interests of each Subsidiary are validly issued, fully paid and non-assessable (to the extent applicable to such entity type) and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar right. All such capital stock or other equity interests represented as being owned by the Company or any of the Subsidiaries are owned by them free and clear of any and all Liens, other than statutory liens in respect of current Taxes. No shares of capital stock are held by any Subsidiary as treasury stock.

(iii) Issuance and Disposition of Equity of the Subsidiaries. There is no existing option, warrant, call, right or Contract of any character to which any Subsidiary is a party requiring, and there are no securities of any Subsidiary outstanding which upon conversion or exchange would require, the issuance of any shares of capital stock or other equity interest of any Subsidiary or other securities convertible into, exchangeable for or evidencing the right to subscribe for any equity interest of any Subsidiary. No Subsidiary is a party to any voting trust or other Contract with respect to the voting, redemption, sale, transfer or other disposition of its equity interests. The Company does not own, directly or indirectly, any capital stock or equity securities of any Person other than the Subsidiaries. Except as set forth on Schedule 4.4(c), there are no restrictions on the ability of the Subsidiaries to make distributions of cash to their respective equity holders.

4.5 Corporate Records. The Company and each of the Subsidiaries has made available to the Buyer true, correct and complete copies of the certificates of formation, certificate of incorporation and limited liability company agreements or comparable organizational documents of the Company and each of the Subsidiaries in each case as amended and in effect on the date hereof, including all amendments thereto.

4.6 Financial Statements.

(a) Financial Statements. The Company has made available to the Buyer copies of (i) the audited consolidated balance sheets of the Company and the

Subsidiaries as at December 31, 2011, December 31, 2012 and December 31, 2013 and the related audited consolidated statements of income and of cash flows of the Company and the Subsidiaries for the time periods then ended; and (ii) the unaudited balance sheet (the " **Balance Sheet** ") of the Company and the Subsidiaries as at October 31, 2014 and the related consolidated statements of income and cash flows of the Company and the Subsidiaries for the ten-month period then ended (such audited and unaudited statements, including the related notes and schedules thereto are referred to herein collectively as the " **Financial Statements** "). Except as set forth in the notes thereto, each of the Financial Statements has been prepared in accordance with GAAP consistently applied by the Company without modification of the accounting principles used in the preparation thereof throughout the periods presented (subject, with respect to the Financial Statement described in clause (ii) above only, to normal recurring year-end adjustments and footnotes in the unaudited statements, the effects of which will not, individually or in the aggregate, be material) and presents fairly in all material respects the consolidated financial position, results of operations and cash flows of the Company and the Subsidiaries as at the dates and for the periods indicated therein.

(b) Books and Records . All books and records and other financial records of the Company and the Subsidiaries, including required records with respect to Taxes, are accurate, complete and maintained in accordance with reasonable business practices.

(c) Indebtedness . Schedule 4.6 provides an accurate and complete list as of the date hereof of all Indebtedness for borrowed money of the Company and the Subsidiaries.

4.7 Liabilities .

(a) No Undisclosed Liabilities . Neither the Company nor any Subsidiary has any Liabilities required under GAAP to be reflected on a balance sheet or the notes thereto other than those: (i) specifically reflected on and reserved against in the Balance Sheet or otherwise disclosed in the Financial Statements and notes thereto; (ii) incurred in the Ordinary Course of Business since December 31, 2013; and (iii) that would not be material to the Company and the Subsidiaries taken as a whole.

(b) No Liabilities under Acquisition Agreement . Neither the Company nor any Subsidiary has any Liabilities arising: (i) under the Securities Purchase Agreement, dated as of June 30, 2011, by and between the Sellers, Solid State Equipment Corporation, the Company and the Stockholders party thereto (the " **2011 Agreement** "); or (ii) in connection with the transactions contemplated thereby. To the Knowledge of the Company, there is no basis for any claim for indemnification by the Company and the Sellers against Solid State Equipment Corporation and the Stockholders party thereto

under the 2011 Agreement, by reason of any breach of representations, warranties or covenants under such agreement.

4.8 Absence of Certain Developments . Except as expressly contemplated by this Agreement, since December 31, 2013: (i) the Company and the Subsidiaries have conducted their respective businesses only in the Ordinary Course of Business; (ii) there has not been any event, change, occurrence or circumstance that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect; and (iii) except in connection with the Transaction, neither the Company nor any Subsidiary has: (x) taken (or are legally bound to take) any action that would, if such action had occurred after the date hereof, be prohibited without the prior written consent of the Buyer by Section 8.2 ; or (y) omitted to take any action that would, if such action had occurred after the date hereof, be required by Section 8.2 , unless waived in writing by the Buyer.

4.9 Taxes .

(a) Each of the Company and the Subsidiaries has timely filed (taking into account any permitted extensions of time in which to file) all federal income Tax Returns and other material Tax Returns required to have been filed by the Company or the Subsidiaries and all such Tax Returns are correct and complete in all material respects. Neither the Company nor any Subsidiary has requested or been granted any extension of time within which to file any Tax Return, which Tax Return has not since been filed.

(b) All material Taxes required to have been paid by the Company or the Subsidiaries have been paid by the Company or the Subsidiaries. The Company and the Subsidiaries do not have any material Liabilities for Taxes not yet required to have been paid that were not incurred in the Ordinary Course of Business since the Balance Sheet Date.

(c) All material amounts of Taxes required to be withheld or collected in respect of employees by the Company or the Subsidiaries have been withheld or collected and to the extent required, have been paid to the proper Taxing Authority.

(d) There is no audit or other Legal Proceeding presently pending or threatened in writing (or to the Knowledge of the Company, threatened in an unwritten communication) with regard to any Tax Liability or Tax Return of the Company or any Subsidiary other than proceedings relating to Tax Liabilities that the Company or a Subsidiary is contesting in good faith through appropriate proceedings and for which appropriate reserves have been established in the Balance Sheet. Neither the Company, any Subsidiary, nor any authorized Person on their behalf has waived any statute of limitations or agreed to any extension of time that has continuing effect with respect to assessment or collection of any Tax for which the Company or any Subsidiary may be

held liable. There is not currently in effect any power of attorney authorizing any Person to act on behalf of the Company or any Subsidiary, or receive information relating to the Company or any Subsidiary, with respect to any Tax matter (other than authorizations to contact Tax Return preparers included in Tax Returns).

(e) Schedule 4.9(e) identifies by type of Tax and jurisdiction, all income Tax Returns that the Company and any Subsidiary has filed or will be required to file with respect to its activities and ownership of assets for taxable periods including any date after June 30, 2011 through the date hereof, or pursuant to obligations under the 2011 Agreement. Neither the Company nor any Subsidiary has commenced activities since January 1, 2014 that would require it to file a Tax Return in any jurisdiction of a type that it had not filed in such jurisdiction for the immediately preceding taxable period for such type of Tax. All Tax Returns and related documents and records made available by the Company to Buyer in the electronic data room or upon specific request were true, correct and complete copies of such documents and records.

(f) The Company has been properly treated as a partnership has for federal income Tax purposes, and has never made any election effective in any taxing jurisdiction to be treated as a corporation for federal income tax purposes. Except as set forth on Schedule 4.9(f) , each Subsidiary has been properly treated for federal income tax purposes as an entity disregarded as separate from the Company at all times since the date of its formation. Except as specified in the preceding sentence, since January 1, 2011, neither the Company nor or any Subsidiary (i) has been a party to any joint venture, partnership or other agreement or arrangement which is treated (or required to be treated) as a partnership for federal income Tax purposes, (ii) owned any interest in an entity that, during such ownership, either was treated or required to be treated as an entity disregarded as separate from its owner for federal income Tax purposes, or (iii) was an entity as to which an election pursuant to Treasury Regulation Section 301.7701-3 has been made.

(g) Neither the Company nor any Subsidiary is a party to any tax sharing, allocation, indemnity or similar agreement or arrangement pursuant to which it will have any obligation to make any payments after the Closing, other than agreements entered into in the Ordinary Course of Business that are not primarily related to Taxes and in which the inclusion of Tax-related obligations is consistent with normal commercial practices in such contracts.

(h) No assets (or a portion of the basis in assets) held by the Company immediately after the consummation of the transactions effected pursuant to the 2011 Agreement are assets that were excluded from “amortizable section 197 intangibles” by Section 197 (f)(9) of the Code by reason of the transactions effected pursuant to the 2011 Agreement.

(i) The representations and warranties contained within this Section 4.9 cannot be relied upon with respect to Tax liabilities arising in any taxable period other than a Pre-Closing Tax Period ; provided that the forgoing shall not apply to foreclose claims for Damages from breaches of:

(i) the last two sentences of Section 4.9(d) ,

(ii) the second sentence of Section 4.9(e) insofar as it applies to Straddle Periods for which a Buyer Prepared Return is required to be filed,

(iii) the third sentence of Section 4.9(e) to the extent that any omitted information affects Tax obligations of the Company or its Subsidiaries for any taxable period ending after the Closing Date and such omission was reasonably not discovered or known to Buyer,

(iv) Section 4.9(f) ,

(v) Section 4.9(g) as to any obligations of the Company or any Subsidiary under any agreement described in Section 4.9(g) , and

(vi) subject to Section 12.1(d)(vi) , Section 4.9(h) .

4.10 Real and Personal Property .

(a) No Owned Real Property . Neither the Company nor the Subsidiaries owns any real property or interests in real property (including easements thereto).

(b) Leases . Schedule 4.10(b) sets forth a complete list of all real property and interests in real property leased by the Company and the Subsidiaries involving annual payments in excess of $50,000 (individually, a " **Real Property Lease** " and collectively, the " **Real Property Leases** ") as lessee or lessor, including a description of each such Real Property Lease (including the name of the third party lessor or lessee and the date of the lease or sublease and all amendments thereto). The Real Property Leases constitute all interests in real property currently used, occupied or currently held for use in connection with the business of the Company and the Subsidiaries and which are necessary for the continued operation of the business of the Company and the Subsidiaries as the business is currently conducted. The Company has made available to Buyer true, correct and complete copies of the Real Property Leases, together with all amendments, modifications or supplements, if any, thereto.

(c) Enforceability of Leases . Each Real Property Lease is a legal, valid, binding and enforceable obligation of the Company or a Subsidiary, as applicable, and is in full force and effect, free and clear of all Liens other than Permitted Exceptions.

Neither the Company nor any Subsidiary is in default under any Real Property Lease, and, to the Knowledge of the Company, no event has occurred or circumstance exists which, if not remedied, and whether with or without notice or the passage of time or both, would result in such a default. Neither the Company nor any Subsidiary has received or given any written (or, to the Knowledge of the Company, oral) notice of any material default or event that with notice or lapse of time, or both, would constitute a material default by the Company or any Subsidiary under any of the Real Property Leases. Neither the Company nor any Subsidiary, nor, to the Knowledge of the Company, has any party to any Real Property Lease exercised any termination rights with respect thereto and, to the Knowledge of the Company, no other party is in default thereof.

(d) Tangible Personal Property. Schedule 4.10(d) sets forth all leases of personal property by the Company or any Subsidiary used in the business of the Company or any of the Subsidiaries or to which the Company or any of the Subsidiaries is a party involving annual payments in excess of $50,000 (" **Personal Property Leases** "). Each Personal Property Lease is a legal, valid, binding and enforceable obligation of the Company or a Subsidiary, as applicable, and is in full force and effect, free and clear of all Liens other than Permitted Exceptions. Neither the Company nor any Subsidiary has received any written notice of any default or any event that with notice or lapse of time, or both, would constitute a default, by the Company or any Subsidiary under any of the Personal Property Leases.

4.11 Intellectual Property.

(a) Schedule of Intellectual Property. Schedule 4.11(a)(i) sets forth a complete and accurate list of: (A) all patents, registered trademarks, registered copyrights, Internet domain names, other registered Intellectual Property and pending applications for registration of any of the foregoing, in each case owned, used or held for use by the Company or any Subsidiary; and (B) each material unregistered trademark, service mark and copyright owned by the Company or any Subsidiary in connection with its business. Except as disclosed in Schedule 4.11(a)(ii), the Company and the Subsidiaries own all right, title and interest in and to all Intellectual Property required to be set forth on Schedule 4.11(a)(i). All such Intellectual Property is subsisting and in good standing, and is, to the Knowledge of the Company, valid and enforceable and subsisting, and all necessary registration, maintenance, renewal, and other relevant filing fees due through the date hereof in connection therewith have been timely paid and all necessary documents and certificates in connection therewith have been timely filed with the relevant patent, copyright, trademark, or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such registered Intellectual Property in full force and effect. No registration, maintenance, renewal or other related filings are required in the ninety (90) days following the date hereof. Except as set forth on Schedule 4.11(b), the Company and the Subsidiaries own all right, title and interest in and to, or have valid and continuing rights to use, sell and license, all

Intellectual Property used in the conduct of the business and operations of the Company and the Subsidiaries as presently conducted and as currently proposed to be conducted, free and clear of all Liens, other than Permitted Exceptions, or obligations to others. All Intellectual Property jointly owned by the Company and the Subsidiaries and a third party is described in Schedule 4.11(b) .

(b) No Infringement . To the Knowledge of the Company, the business and operations of the Company and the Subsidiaries and their products and services and the design, development, manufacturing, reproduction, use, marketing, sale, distribution, maintenance and modification of any of the foregoing as presently and previously performed and as currently contemplated to be performed has not and does not infringe upon, misappropriate or otherwise violate any Intellectual Property rights of any third party.

(c) Trade Secrets and Confidentiality . The Company and the Subsidiaries have taken necessary security measures to protect and enforce the secrecy, confidentiality and value of all trade secrets owned by the Company or any Subsidiary that are material to their businesses as currently conducted and as proposed to be conducted. To the Knowledge of the Company, no trade secrets or other confidential information owned by the Company or any Subsidiary that is material to their businesses as currently conducted and as proposed to be conducted have been disclosed or authorized to be disclosed by the Company or any Subsidiary to any of their Employees or consultants, contractors or other third Persons other than pursuant to a written non-disclosure or confidentiality agreement. To the Knowledge of the Company, no Employee, consultant or independent contractor of the Company or any Subsidiary is in default or breach of any material term of any non-disclosure or confidentiality agreement, covenant or obligation described in this Section 4.11(d) .

(d) Assignment of Inventions; Development . None of the materialIntellectual Property owned or purportedly owned by the Company or any Subsidiary was (i) developed by a consultant, contractor or person other than an Employee, or (ii) developed by, with or using any facilities or resources of, educational institutions or under any agreements or arrangements with any Governmental Body.

(e) No Unauthorized Use . To the Knowledge of the Company there has been and is no unauthorized use, disclosure, infringement, violation or misappropriation by any third party of any Intellectual Property owned by the Company or any Subsidiary. No claims have been made against a Person for infringing, violating or misappropriating any Intellectual Property owned by the Company or any Subsidiary.

(f) No Challenges . Neither the Company nor any Subsidiary has been or is the subject of any pending or, to the Knowledge of the Company, threatened Legal Proceedings which involve a claim or demand of infringement, unauthorized use,

misappropriation, dilution or violation by any Person against the Company or any Subsidiary or challenging the ownership, use, right to exploit, validity or enforceability of any Intellectual Property, nor has any claim or demand been made by any third party that alleges any unfair competition or trade practices by the Company or any Subsidiary of any Intellectual Property of any third party, nor is the Company aware of any basis for any such claim or demand.

(g) Licenses.

(i) Licenses. Except with respect to inbound licenses of commercial off-the-shelf Software available on reasonable terms and for a license fee of no more than $15,000 annually, Schedule 4.11(g)(i) sets forth any Contract which contains: (A) any grant or license by the Company or any Subsidiary to another Person of any right or access relating to or under the Company's or any Subsidiaries' Intellectual Property; and (B) any grant or license by another Person to the Company or any Subsidiary of any right or access relating to or under any third Person's Intellectual Property. Schedule 4.11(g)(i) also lists all third-party Software currently or since January 1, 2010 provided to customers as part of or in connection with the sale or license of the Company's products. Such list shall include the name of the third party and the type of license under which such Software is licensed to the Company. Each of the Contracts, licenses or other agreements set forth on Schedule 4.11(g)(i) is in full force and effect and is the legal, valid and binding obligation of the Company or a Subsidiary, as applicable, enforceable against the Company or such Subsidiary in accordance with its terms; the Company is not in default under any such Contract, license or other agreement, nor, to the Knowledge of the Company, is any other party in default thereunder; and no party to any such Contract, license or other agreement has exercised, or to the Knowledge of the Company plans to exercise, any termination rights with respect thereto.

(ii) Obligations. Except as identified on Schedule 4.11(g)(ii), neither the Company nor any Subsidiary (A) has agreed (other than in agreements with customers in the Ordinary Course of Business) to indemnify any Person against any infringement, violation or misappropriation of any Intellectual Property rights, (B) is a member of or party to any patent pool, industry standards body, trade association or other organization pursuant to the rules of which it is obligated to license any existing or future Intellectual Property to any Person, (C) has obligated itself to make available to third Persons the source code for any proprietary Software owned by the Company or any Subsidiary pursuant to an escrow agreement, an open source license or otherwise, or (D) has licensed or sold any products or services to any Governmental Body.

(h) No Grant to Third Parties; Continuity of Rights. Neither the execution of this Agreement, the consummation of the Transaction, nor the conduct of the business and operations of the Company and the Subsidiaries as presently conducted and as currently proposed to be conducted will result in the Company or any Subsidiary granting to any third party any right to any Intellectual Property owned by, or licensed to, the Company and the Subsidiaries. Following the Closing, (i) the Company and the Subsidiaries will have the right to exercise all of their current rights under agreements (including, without limitation, software licenses) granting rights to the Company or any Subsidiary with respect to Intellectual Property of a third party to the same extent and in the same manner they would have been able to had the Transaction not occurred, and (ii) all Intellectual Property currently owned exclusively by the Company and the Subsidiaries will continue to be owned exclusively by the Company and the Subsidiaries.

(i) IT Systems. The information technology systems of the Company and the Subsidiaries, including the relevant Software and hardware, are adequate for the business as presently conducted. The information technology systems of the Company and the Subsidiaries have not suffered any material failure within the past two years.

(j) Security Breaches. To the Knowledge of the Company, the Company and the Subsidiaries have not suffered any security breaches within the past two years that have resulted in a third party obtaining access to any of the Company's networks, servers or databases, or to confidential or personal information of the Company, the Subsidiaries or any of their Employees, customers or suppliers. The Company and each Subsidiary have complied with all applicable contractual and legal requirements pertaining to information privacy and security.

4.12 Material Contracts.

(a) Schedule of Material Contracts. Schedule 4.12 sets forth all of the following Contracts to which the Company or any Subsidiary is a party or by which any of them or their respective assets of properties are bound (collectively, the " **Material Contracts** "):

(i) Service Providers. Contracts with any equityholder of the Company, or Affiliate thereof, or current or former director or officer of any Seller, the Company or any Subsidiary or Affiliate thereof having annual base salary and target annual bonus exceeding $100,000;

(ii) Sale. Contracts for the sale of any of the assets of the Company or any Subsidiary (other than sales of inventory in the Ordinary Course of Business) within the last 2 years for consideration in excess of $200,000;

(iii) Acquisition. Contracts relating to the acquisition (by merger, purchase of stock or assets or otherwise) by the Company or any of the Subsidiaries of any operating business or material assets or the capital stock of any other Person other than supplies and inventory in the Ordinary Course of Business;

(iv) Joint Ventures. Contracts for joint ventures, strategic alliances, partnerships or sharing of profits;

(v) Non-competes. Contracts containing covenants of the Company or any of the Subsidiaries not to compete in any line of business or with any Person in any geographical area or in any line of business or not to solicit or hire any person with respect to employment;

(vi) Indebtedness. Contracts relating to the incurrence, assumption or guarantee of any Indebtedness or imposing a Lien, other than a Permitted Exception, on any of the assets of the Company or any Subsidiary, including indentures, guarantees, loan or credit agreements, sale and leaseback agreements, purchase money obligations incurred in connection with the acquisition of property, mortgages, pledge agreements, security agreements, or conditional sale or title retention agreements, in each case involving amounts in excess of $250,000;

(vii) Requirements Contracts. Contracts obligating the Company or any of the Subsidiaries to provide or obtain products or services for a period of one year or more or requiring the Company to purchase or sell a stated portion of its requirements or outputs;

(viii) Advances. Contracts under which the Company or any of the Subsidiaries has made advances or loans to any other Person other than advances to Employees in the Ordinary Course of Business;

(ix) Severance Agreements. Contracts providing for severance, retention, change in control or other similar payments of more than $25,000 to any Employee;

(x) Independent Contractor Agreements. Contracts with independent contractors or consultants that are not cancelable without more than 30 days' notice or without severance pay or other penalty that could obligate the Company to pay more than $100,000;

(xi) Guaranty. outstanding Contracts of guaranty or surety by the Company or any of the Subsidiaries; and

(xii) Expenditures. Contracts which involve the expenditure of more than $100,000 in any fiscal year or $250,000 in the aggregate during the term thereof that are not terminable by the Company or the applicable Subsidiary without penalty on notice of 180 days or less.

(b) Validity; No Breach. Each Material Contract is a legal, valid and binding obligation of the Company or a Subsidiary that is a party thereto and, to the Knowledge of the Company, on each counterparty thereto and is in full force and effect, and, upon consummation of the transactions contemplated by this Agreement, shall continue in full force and effect without penalty or adverse change in rights thereunder. Neither the Company nor any Subsidiary, nor to the Knowledge of the Company, any other party thereto, is in material breach of, or in material default under, any such Material Contract, and no event has occurred within the last 12 months that with notice or lapse of time or both would constitute such a breach or default thereunder by the Company or any Subsidiary, or, to the Knowledge of the Company, any other party thereto. The Company has not, and, to the Knowledge of the Company, no other party to any of the Material Contracts has, exercised any termination rights with respect thereto, or given written notice of any significant dispute with respect to any Material Contract. The Company has made available to the Buyer true, correct and complete copies of all of the Material Contracts, together with all amendments, modifications or supplements thereto.

4.13 Customers and Suppliers.

(a) Schedule of Customers and Suppliers. Schedule 4.13 sets forth a list of the 10 largest of the customers and the 20 largest suppliers of the Company and the Subsidiaries (taken as a whole) (as measured by the dollar amount of purchases thereby or therefrom, during each of: (i) the fiscal year ended December 31, 2013 and 2012; and (ii) the 9-month period ending on September 30, 2014), showing the approximate total sales by the Company and the Subsidiaries to each such customer during such periods and the approximate total purchases by the Company and the Subsidiaries from each such supplier, during such periods.

(b) Cancellations. To the Knowledge of the Company, since the Balance Sheet Date, no customer listed on Schedule 4.13 has cancelled or materially reduced any existing order or materially and adversely changed the pricing or other terms of any existing order with the Company or any of the Subsidiaries and, no customer listed on Schedule 4.13 has notified the Company or the Subsidiaries that it intends to cancel or materially reduce any existing order or materially and adversely change the pricing or other terms of any existing order with the Company or any of the Subsidiaries.

4.14 Employee Benefit Plans.

(a) Company Benefit Plans. Schedule 4.14 sets forth a correct and complete list of each "employee benefit plan" (as defined in Section 3(3) of ERISA) and each other plan, program or agreement that provides for employment, bonuses, incentive compensation, equity or equity-based compensation, deferred compensation, change in control pay or benefits, severance pay, stock purchase, sick leave, salary continuation, vacation pay, holiday pay, hospitalization, medical insurance, prescription drug, disability insurance, life insurance, profit sharing, pension or retirement, transportation, employee loan, educational assistance, company car, country/city club, health club, child care, paid study leave, other fringe, or welfare benefit or tax gross up or similar benefits, in each case to which the Company or any Subsidiary has any obligation or liability, contingent or otherwise, for any current or former employee, director or other service provider of the Company or any Subsidiary (each, an "**Employee**") or the dependent or beneficiary of any of them and, in each case, excluding any governmental plan, program or arrangement (each, a "**Company Benefit Plan**"). The Company has provided to Buyer, to the extent applicable with respect to each Company Benefit Plan (other than employment agreements that are not Material Contracts and that do not materially depart from the Company's form of employment agreement), correct and complete copies of: (i) the annual report (if required under ERISA) for the last three (3) years (including all schedules and attachments); (ii) a copy of the most recent summary plan description, together with each summary of material modification required under ERISA with respect thereto; (iii) each such written Company Benefit Plan (including all amendments not incorporated into the documentation for each such plan); (iv) all trust agreements, insurance contracts, and similar instruments with respect to each such funded or insured Company Benefit Plan; (v) copies of all nondiscrimination and top-heavy testing reports for the last three (3) plan years; and (vi) any investment management agreements, administrative services contracts or similar agreements that are in effect as of the date hereof relating to the ongoing administration and investments.

(b) Title IV Plans. None of the Company Benefit Plans is: (i) subject to Title IV of ERISA or Section 412 of the Code; (ii) a "multiple employer plan" (within the meaning of Section 413(c) of the Code); (iii) a "multiple employer welfare arrangement" (within the meaning of Section 3(40) of ERISA), or (iv) a "multiemployer plan", as defined in Section 3(7) of ERISA, and none of the Company or any Subsidiary has or will have any liability or other obligation (whether accrued, absolute, contingent or otherwise) under any "multiemployer plan", as defined in Section 3(7) of ERISA, or plan subject to Title IV of ERISA, after the consummation of the transactions contemplated by the Agreement by reason of having been a member of a group under common control or treated as a single employer under Section 414(b), (c), (m), or (o) of the Code before the consummation of such transactions..

(c) Maintenance of Company Benefit Plans and Compliance with Laws. Each Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code is so

qualified and has received and is entitled to rely upon a favorable determination letter or opinion letter from the IRS with respect to such Company Benefit Plan as to its qualified status under the Code, and, except as scheduled, to the knowledge of the Company, nothing has occurred that could reasonably expected to adversely affect such determination or opinion. Except as scheduled, each Company Benefit Plan has been maintained and administered, (i) in accordance with its terms and (ii) in compliance with all applicable provisions of ERISA, the Code and other Laws.

(d) Pending Claims . Except as scheduled, there are no pending actions, claims or lawsuits which have been asserted or instituted against the Company Benefit Plans, the assets of any trusts under such plans or the plan sponsor or the plan administrator of the Company Benefit Plans with respect to the operation of such plans (other than routine benefit claims), nor, to the Knowledge of the Company, are there facts which could reasonably be expected to form the basis for any such claim or lawsuit.

(e) Effect of Agreement and Transaction . Except as contemplated by this Agreement, none of the execution and delivery by the Company of this Agreement or the Company Documents (excluding the employment agreement under Section 9.1(h)) , the consummation by the Company of the Transaction, or compliance by the Company with any of the provisions hereof or thereof shall (i) result in any payment (including severance, change in control or otherwise) becoming due to any Employee under any Company Benefit Plan, (ii) increase any benefits payable under any Company Benefit Plan to any Employee or (iii) result in the acceleration of time of payment, funding or vesting of any such benefits under any Company Benefit Plan, except, in the case of the foregoing clauses (i), (ii) and (iii), for any payments or benefits for which the Sellers shall be solely liable.

(f) Excise Taxes . Disregarding the Deferred Amount and payments under the Employment Arrangements, neither the Company nor any of the Subsidiaries has become obligated to make, or will as a result of any event connected directly or indirectly with any transaction contemplated herein become obligated to make, any "excess parachute payment" as defined in Section 280G of the Code (without regard to Subsection (b)(4) thereof). There is no written or unwritten agreement, plan, arrangement or other contract by which the Company or any of the Subsidiaries are bound to compensate any individual for excise taxes paid pursuant to Section 4999 of the Code or taxes imposed by Section 409A(a)(1)(B) of the Code.

(g) Health and Welfare Benefits; Actuarial Plans . None of the Company Benefit Plans provides retiree health or life insurance coverage for former directors, officers or employees (or any spouse or former spouse or other dependent thereof), other than: (i) benefits coverage required by Section 4980B of the Code, Part 6 of Title I of ERISA; (ii) medical expense reimbursement arrangements subject to Sections 105 and 125 of the Code to the extent of the balance of any individual's account

thereunder; (iii) coverage through the end of the calendar month in which an individual has terminated services with the Company or any of the Subsidiaries; or (iv) coverage during a severance pay period or other period of absence. Except as scheduled, no Company Benefit Plan (other than a medical flexible spending account or a health savings account) provides health or medical benefits that are not fully insured through an insurance contract. No Company Benefit Plan, whether or not intended to be qualified under Section 401(a) of the Code, provides a "defined benefit" or benefits on an actuarial basis.

(h) International Plans . Each of the Company Benefit Plans that is maintained outside the United States primarily for the benefit of Persons substantially all of whom are "nonresident aliens" within the meaning of Section 4(b)(4) of ERISA is separately identified and disclosed on Schedule 4.14(a) (each such Company Benefit Plan, an " **International Plan** "). As regards each International Plan, (i) such International Plan is in material compliance with the provisions of the Legal Requirements of each jurisdiction in which such International Plan is maintained, to the extent those Legal Requirements are applicable to such International Plan, (ii) all contributions to, and material payments from, such International Plan which may have been required to be made in accordance with the terms of such International Plan, and, when applicable, the Legal Requirements of the jurisdiction in which such International Plan is maintained, have been timely made or shall be made by the Closing Date, and all such contributions to such International Plan, and all payments under such International Plan, for any period ending before the Closing Date that are not yet, but will be, required to be made, are reflected as an accrued liability on the Company Balance Sheet, (iii) the Company and each Subsidiary has materially complied with all applicable reporting and notice requirements, and such International Plan has obtained from the Governmental Entity having jurisdiction with respect to such International Plan any required determinations, if any, that such International Plan is in compliance with the Legal Requirements of the relevant jurisdiction if such determinations are required in order to give effect to such International Plan, (iv) such International Plan has been administered in all material respects at all times in accordance with its terms and applicable Legal Requirements, and (v) to the Knowledge of Company, there are no pending investigations by any governmental body involving such International Plan, and no pending claims (except for claims for benefits payable in the normal operation of such International Plan), suits or proceedings against such International Plan or asserting any rights or claims to benefits under such International Plan, No International Plan has unfunded Liabilities that will not be offset by insurance or that are not fully accrued on the financial statements of Company.

4.15 Accounts and Notes Receivable . Schedule 4.15 provides an accurate and complete listing by customer and account of outstanding balances and aging of all accounts receivable, notes receivable and other receivables of the Company and its Subsidiaries as of November 21, 2014. Except as set forth in Schedule 4.15 , all existing

accounts receivable of the Company and the Subsidiaries (including those accounts receivable reflected on the Balance Sheet or arising since the Balance Sheet Date that have not yet been collected) and all accounts receivable to be reflected on the Closing Date Balance Sheet represent valid obligations of customers of the Company and the Subsidiaries arising from bona fide transactions entered into in the ordinary course of business. Except as disclosed on Schedule 4.15, no Person has any encumbrance on such receivables or any part thereof, and no agreement for deduction, free goods, discount or other deferred price or quantity adjustment shall have been made with respect to any such receivables.

4.16 Related Party Transactions.

(a) Transactions with Affiliates. Except as set forth on Schedule 4.16(a), no Employee, officer, manager, director or other equity holder or member of the Company or any of the Subsidiaries, and, to the Knowledge of the Company, no member of his or her immediate family or any of their respective Affiliates (“**Related Persons**”): (i) owes or is owed any amount to or from the Company or any of the Subsidiaries, as the case may be; (ii) is involved in any business arrangement or other relationship with the Company or any of the Subsidiaries (not inclusive of any Ordinary Course of Business employee, officer, manager or director relationships); (iii) owns any property or right that is used by the Company or any of the Subsidiaries (except any Company Units); or (iv) has any claim or cause of action against the Company or any of the Subsidiaries.

(b) Conflicted Ownership. To the Knowledge of the Company, except as set forth on Schedule 4.16(b), none of Herman Itzkowitz, Thomas Werthan, Vince Amorosi, James McDevitt, Laura Mauer or John Voltz and no member of any of their immediate families, owns any direct or indirect interest of any kind (not inclusive of any direct or indirect ownership of less than 5% of the shares of a publicly traded company) in, or controls or is a director, officer, employee or partner of, or consultant to, or lender to or borrower from or has the right to participate in the profits of, any Person which is a competitor, supplier, customer, landlord, tenant, creditor or debtor of the Company or any Subsidiary.

4.17 Labor.

(a) Collective Bargaining Agreements. Neither the Company nor any Subsidiary is a party to a collective bargaining agreement or other written agreement with a labor union or other labor organization representing any employee of the Company or any Subsidiary.

(b) Strikes; Unfair Labor Practice Charges. There are no: (i) strikes, work stoppages, work slowdowns or lockouts pending or, to the Knowledge of the Company, threatened against or involving the Company or any Subsidiary; (ii) unfair

labor practice charges, grievances or complaints pending or, to the Knowledge of the Company, threatened by or on behalf of any employee or group of employees of the Company or any Subsidiary before the National Labor Relations Board or any similar state or foreign agency or (iii) charges with respect to or relating to the Company or any Subsidiary pending or, to the Knowledge of the Company, threatened before the Equal Employment Opportunity Commission or any similar state or foreign agency responsible for the prevention of unlawful employment practices, except, in the case of the foregoing clauses (i), (ii) and (iii), for any exceptions as would not, individually or in the aggregate, be material to the Company and the Subsidiaries, taken as a whole.

(c) Compliance. The Company and the Subsidiaries are and have been prior to the date hereof in compliance with all Laws regarding labor or collective bargaining, except for noncompliance that would not reasonably be expected to result in the Company or the Subsidiaries incurring any unbudgeted, material Liabilities. Neither the Company nor any Subsidiary has received any written notice of or been charged with the violation of any Laws regarding labor or collective bargaining which would result in material Liability to the Company and the Subsidiaries, taken as a whole. To the Knowledge of the Company, neither the Company nor any Subsidiary is under investigation with respect to the violation of any Laws regarding labor or collective bargaining.

(d) Employees. Schedule 4.17 sets forth a true and complete list of all employees of the Company and the Subsidiaries as of the date hereof, including current job title and compensation, for the current fiscal year. No employee of the Company or any of the Subsidiaries is employed under a non-immigrant work visa or other work authorization that is limited in duration.

4.18 Litigation. There are no Legal Proceedings pending or, to the Knowledge of the Company, threatened against the Company or any Subsidiary, or to which the Company or any of the Subsidiaries is otherwise a party before any Governmental Body. Neither the Company nor any Subsidiary is subject to any Order of any Governmental Body and neither the Company nor any Subsidiary is in breach or violation of any Order. Neither the Company nor any Subsidiary is engaged in any legal action to recover monies due it or for damages sustained by it. There are no Legal Proceedings pending or, to the Knowledge of the Company, threatened against Company or to which the Company is otherwise a party relating to this Agreement or, any Company Document or the transactions contemplated hereby or thereby.

4.19 Compliance with Laws; Permits.

(a) Compliance with Laws. The Company and the Subsidiaries are and have been prior to the date hereof in compliance with all Laws applicable to its business, operations or assets, except for noncompliance that would not reasonably be

expected to result in the Company or the Subsidiaries incurring any unbudgeted, material Liabilities. Neither the Company nor any Subsidiary has received any written (or, to the Knowledge of the Company, oral) notice of or been charged with the material violation of any Laws. To the Knowledge of the Company, neither the Company nor any Subsidiary is under investigation with respect to the violation of any Laws.

(b) Permits . Schedule 4.19(b) contains a list of all material Permits (including Environmental Permits) which are required for the operation of the business of the Company and the Subsidiaries as presently conducted. The Company and the Subsidiaries currently possess all Permits which are required for the operation of their respective businesses as presently conducted, other than those the failure of which to possess would not be material to the operations of the Company and the Subsidiaries, taken as a whole. Neither the Company nor any Subsidiary is in material default or violation of any term, condition or provision of any material Permit to which it is a party. There are no Legal Proceedings pending or, to the Knowledge of the Company, threatened, relating to the suspension, revocation or modification of any Permit.

4.20 Environmental Matters . The representations and warranties contained in this Section 4.20 are the sole and exclusive representations and warranties with respect to the Company and the Subsidiaries regarding any matters arising under any Environmental Law:

(a) Environmental Permits . The operations of the Company and the Subsidiaries are and have been in compliance with all applicable Environmental Laws, which compliance includes obtaining, maintaining and complying with any Permits required under all applicable Environmental Laws necessary to operate its business (“ **Environmental Permits** ”), except for noncompliance that would not reasonably be expected to result in the Company or the Subsidiaries incurring any material Liability under any Environmental Law or any Environmental Permit.

(b) Environmental Claims . Neither the Company nor any Subsidiary is subject to any pending, or to the Knowledge of the Company, threatened claim alleging that the Company or any Subsidiary may be in violation of or have any Liability under any Environmental Law or any Environmental Permit, except for such claims that would not reasonably be expected to result in the Company or the Subsidiaries incurring any material Liability under any Environmental Law or any Environmental Permit.

(c) Releases of Hazardous Materials . Except as would not reasonably be expected to result in the Company or the Subsidiaries incurring any material Liabilities, there have been no Releases of any Hazardous Materials into the environment by the Company except for Releases in compliance with all Environmental Laws and Environmental Permits.

(d) Environmental Investigations. To the Knowledge of the Company, there are no pending or threatened investigations of the businesses of the Company or any Subsidiary, or any currently or previously owned or leased property of the Company or any Subsidiary under Environmental Laws, which would reasonably be expected to result in the Company or any Subsidiary incurring any material Liability pursuant to any Environmental Law or any Environmental Permit.

(e) Environmental Reports. The Company has made available to the Buyer, prior to the execution of this Agreement, true, correct and complete copies of all material, non-privileged environmental reports, studies, investigations and audits, in its possession, custody, or reasonable control that pertain to the Leased Real Property.

4.21 Financial Advisors. No Person, other than Cowen and Company, LLC, has acted, directly or indirectly, as a broker, finder or financial advisor for the Company or any Subsidiary in connection with the Transaction and no such Person, other than Cowen and Company, LLC, is entitled to any fee or commission or like payment from the Company or any Subsidiary in respect thereof.

4.22 Certain Payments. To the Knowledge of the Company, none of the Company, any Subsidiary, or any director, officer, employee or other Person associated with or acting on behalf of them, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business for the Company or any Subsidiary, (ii) to pay for favorable treatment for business secured by the Company or any Subsidiary, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Company or any Subsidiary, or (iv) in violation of any Law, or (b) established or maintained any fund or asset with respect to the Company or any Subsidiary that has not been recorded in the books and records of the Company and the Subsidiaries.

4.23 Insurance Policies. The Company and the Subsidiaries have insurance policies in full force and effect in such amounts as are set forth on Schedule 4.23, which includes, in respect of each such policy, the policy name, policy number, carrier, term, type and amount of coverage and annual premium and description of all insurance policies in force naming the Company or any Subsidiary, or any employees thereof in their capacity as such, as an insured or beneficiary or as a loss payable payee, or for which the Company or any Subsidiary has paid or is obligated to pay all or part of the premiums. No event relating to the Company or any of the Subsidiaries has occurred which could reasonably be expected to result in a retroactive upward adjustment in premiums under any such insurance policies or which could reasonably be expected to result in a prospective upward adjustment in such premiums. Excluding insurance policies that have expired and been replaced in the Ordinary Course of Business, no

insurance policy has been cancelled within the last two years and no written (or, to the Knowledge of the Company, oral) material threat has been made to cancel any insurance policy of the Company or any of the Subsidiaries during such period. The Company and the Subsidiaries have insurance policies in full force and effect for such amounts as are sufficient for all requirements of Law and all Contracts to which the Company or any Subsidiary is a party, except as would not be reasonably likely to have a Material Adverse Effect.

4.24 Inventories. The inventories of the Company are in as-new, undamaged condition, and usable in the Ordinary Course of Business, in each case consistent with the Ordinary Course of Business, and the Subsidiaries set forth in the Balance Sheet were valued at cost (on a FIFO basis) and were properly stated therein in accordance with GAAP. Reserves reflected in the Balance Sheet for obsolete, excess, damaged, slow-moving, or otherwise unusable inventory were calculated in accordance with GAAP.

4.25 Product Warranty; Product Liability

(a) Product Warranty. To the Knowledge of the Company, the aggregate liability for replacement or repair of any products of the Company or the Subsidiaries or other damages in connection therewith or any other customer or product obligations does not exceed the amount reserved against such liability on the Balance Sheet. Neither the Company nor any of the Subsidiaries has sold any products or delivered any services that included a warranty for a period of longer than two years from the date of delivery of such products or services.

(b) Product Liability. To the Knowledge of the Company, neither the Company nor any of the Subsidiaries has any material liability arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product designed, manufactured, assembled, repaired, maintained, delivered, sold or installed, or services rendered, by or on behalf of the Company or any of the Subsidiaries.

4.26 Bank Accounts; Powers of Attorney. Schedule 4.26 sets forth a true, correct and complete list of the names and locations of all banks and other financial institutions at which the Company and each Subsidiary maintains an account or safe deposit box, the names of all Persons authorized to access such accounts or deposit boxes and the names of all Persons holding powers of attorney or other similar authorizations from the Company and each of the Subsidiaries.

4.27 No Other Representations or Warranties. Except for the representations and warranties contained in this Article IV (as modified by the Disclosure Schedule), neither the Sellers, the Company, any Subsidiary nor any other Person (including any Affiliate of the Sellers, the Company or any Subsidiary) makes any

other express or implied representation or warranty with respect to the Company or any Subsidiary, and the Sellers, the Company and the Subsidiaries disclaim any other representations or warranties with respect to the Company or any Subsidiary, whether made by the Sellers, the Company, any Subsidiary or any of their respective Affiliates, officers, directors, employees, agents or representatives. Except for the representations and warranties contained in this Article IV (as modified by the Disclosure Schedule), the Sellers, the Company and the Subsidiaries hereby disclaim all liability and responsibility for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to the Buyer or its Affiliates or representatives (including any opinion, information, projection, or advice that may have been or may be provided to the Buyer by any director, officer, employee, agent, consultant, or representative of the Company or any of its respective Affiliates). None of the Sellers, the Company, the Subsidiaries nor any other Person (including any Affiliate of the Sellers, the Company or the Subsidiaries) makes any representations or warranties to the Buyer or its Affiliates or representatives regarding the probable success or profitability of the Company or the Subsidiaries. The disclosure of any matter or item in any schedule hereto shall not be deemed to constitute an acknowledgment that any such matter is required to be disclosed. Notwithstanding anything to the contrary herein, this Section 4.27 shall not apply to Fraud Claims.

ARTICLE V

REPRESENTATIONS AND WARRANTIES RELATED TO THE BLOCKER CORPS

Except as set forth in the Disclosure Schedule, Summit Partners Private Equity Fund VII-B, L.P., with respect to SP PE VII-B SSEC Blocker Corp. only, and Summit Partners Subordinated Debt Fund IV-B, L.P., with respect to SP SD IV-B SSEC Blocker Corp. only, hereby represent and warrant to the Buyer, as of the date hereof and as of the Closing, that:

5.1 Organization and Good Standing. Such Blocker Corp is a corporation, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now conducted and as currently proposed to be conducted. Such Blocker Corp is duly qualified or authorized to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which it owns or leases real property and each other jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing would not have a Material Adverse Effect.

5.2 Authorization of Agreement. Such Blocker Corp all requisite corporate power and authority to execute and deliver this Agreement and each other agreement, document, or instrument or certificate contemplated by this Agreement or to be executed by the Company in connection with the consummation of the Transaction (the "**Blocker Corp Documents**"), to perform its obligations hereunder and thereunder, and to consummate the Transaction. The execution and delivery of this Agreement by such Blocker Corp and the Blocker Corp Documents and the consummation by such Blocker Corp of the Transaction have been duly authorized by the Board of Directors and shareholder of such Blocker Corp, and no other corporate action on the part of such Blocker Corp is necessary to authorize the execution, delivery and performance of this Agreement and each of the Blocker Corp Documents and the consummation of the Transaction. This Agreement has been, and each of the Blocker Corp Documents shall be, at or prior to the Closing, duly and validly executed and delivered by such Blocker Corp and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes the legal, valid and binding obligations of such Blocker Corp, enforceable against it in accordance with its terms, subject to applicable, bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.3 Conflicts; Consents of Third Parties.

(a) Conflicts. None of the execution and delivery by such Blocker Corp of this Agreement or the Blocker Corp Documents, the consummation by such Blocker Corp of the Transaction, or compliance by such Blocker Corp with any of the provisions hereof or thereof shall conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, or acceleration of any obligation or give rise to loss of a benefit under, or give rise to any obligation of such Blocker Corp to make any payment under, or to the increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Liens, other than Permitted Exceptions, upon any of the properties or assets of such Blocker Corp under, any provision of: (i) the certificate of incorporation or bylaws of such Blocker Corp; (ii) any Contract or Permit to which such Blocker Corp is a party or by which any of the properties or assets of such Blocker Corp are bound; (iii) any Order applicable to such Blocker Corp or by which any of the properties or assets of such Blocker Corp are bound; or (iv) any applicable Law.

(b) Third Party Consents. No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Body is required on the part of such Blocker Corp in connection with the execution and delivery by such Blocker Corp of this Agreement or the Blocker Corp

Documents or the compliance by such Blocker Corp with any of the provisions hereof or thereof, or the consummation by such Blocker Corp of the Transaction, except for compliance with the applicable requirements of the HSR Act.

5.4 Capitalization.

(a) Authorized and Outstanding Stock. The authorized and issued capital of such Blocker Corp, including the ownership thereof is as set forth opposite its name on Schedule 5.4(a). The Blocker Corp shares of such Blocker Corp represent 100% of the outstanding equity of such Blocker Corp. All of the outstanding Blocker Corp shares were duly authorized for issuance and are validly issued, fully paid and non-assessable and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights.

(b) Issuance and Disposition of Stock. There is no existing option, warrant, call, right or Contract of any character to which such Blocker Corp is a party requiring, and there are no securities of such Blocker Corp outstanding which upon conversion or exchange would require, the issuance of any capital stock or other equity securities of such Blocker Corp or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase capital stock or other equity securities of such Blocker Corp. Except for the Blocker Corp Documents, such Blocker Corp is not a party to any voting trust or other Contract with respect to the voting, redemption, sale, transfer or other disposition of any membership interest or other equity securities of such Blocker Corp. There are no obligations, contingent or otherwise, of such Blocker Corp to (i) repurchase, redeem or otherwise acquire any capital stock or other equity interests of any Subsidiary, or (ii) provide funds to, or make any investment in (in the form of a loan, capital contribution or otherwise), or provide any guarantee with respect to the obligations of, any Person. There are no outstanding stock appreciation, phantom stock, profit participation or similar rights with respect to such Blocker Corp. There are no bonds, debentures, notes or other indebtedness of such Blocker Corp having the right to vote (or, convertible into, or exchangeable for, securities having the right to vote) on any matters on which equity holders of such Blocker Corp may vote.

5.5 Corporate Records. Each such Blocker Corp has made available to the Buyer true, correct and complete copies of the certificates of incorporation and bylaws or comparable organizational documents of such Blocker Corp in each case as amended and in effect on the date hereof, including all amendments thereto.

5.6 Assets, Liabilities, Contracts.

(a) At all times since the formation of each such Blocker Corp through and as of the date hereof, and until the liquidation of its Blocker LP, the only assets of such Blocker Corp are and have been its limited partnership interest in its

Blocker LP and cash. Upon and at all times after liquidation of its Blocker LP through the Closing, the only assets of such Blocker Corp will be the Company Units set forth opposite its name on Schedule 4.4(a)(ii) and cash. Immediately before the Closing, the sole asset of such Blocker Corp will be the Company Units set forth opposite its name on Schedule 4.4(a)(ii).

(b) Since its formation, such Blocker Corp has never conducted any activities other than the acquisition and ownership of its interest(s) in its Blocker LP and such Company Units. Such Blocker Corp has no liabilities and is not party to any Contracts as of the date hereof, and will have no Liabilities and not be a party to any Contract other than this Agreement immediately before the Closing. Since the formation by such Blocker Corp of its Blocker LP, such Blocker LP has never had any assets over than Company Units and cash, and has never conducted any activities other than the acquisition and ownership of its interest in the Company Units distributed on the liquidation of its Blocker LP. Each Blocker LP, as of the date hereof has no Liabilities and is not party to any Contract, and as of the date its liquidation will have no Liabilities and will not be a party to any Contract.

5.7 Taxes .

(a) Such Blocker Corp and its Blocker LP have timely filed (taking into account any permitted extensions of time in which to file) all federal income Tax Returns and other material Tax Returns required to have been filed by such Blocker Corp or its Blocker LP and all such Tax Returns are correct and complete in all material respects. Neither such Blocker Corp nor its Blocker LP have requested or been granted any extension of time within which to file any Tax Return, which Tax Return has not since been filed.

(b) All material Taxes required to be paid by such Blocker Corp have been paid by such Blocker Corp. Except as set forth in Schedule 5.7(b) , such Blocker Corp is not required to pay Taxes or file Tax Returns in any jurisdiction for any Pre-Closing Tax Period other than with respect to its distributive share of income from the Company, directly or through its Blocker LP.

(c) All material Taxes required to have been withheld or collected by such Blocker Corp and its Blocker LP have been withheld or collected, and to the extent required, have been paid to the proper Taxing Authority.

(d) There is no audit or other Legal Proceeding presently pending or threatened in writing (or, to the knowledge of such Blocker Corp's officers and directors, threatened in an unwritten communication) with regard to any Tax Liability or Tax Return of such Blocker Corp or its Blocker LP. Neither such Blocker Corp nor its Blocker LP nor any authorized Person on their behalf, has waived any statute of

limitations or agreed to any extension of time that has continuing effect with respect to assessment or collection of any Tax for which such Blocker Corp or its Blocker LP may be held liable. Except as set forth on Schedule 5.7(d) , there is not currently in effect any power of attorney authorizing any Person to act on behalf of such Blocker Corp or its Blocker LP, or receive information relating to such Blocker Corp or its Blocker LP, with respect to any Tax matter (other than authorizations to contact Tax Return preparers included in Tax Returns).

(e) Schedule 5.7(e) identifies, by type of Tax and jurisdiction, all Tax Returns that such Blocker Corp and its Blocker LP have filed or will be required to file with respect to its activities and ownership of assets since the date of its formation through the Closing Date. Neither such Blocker Corp nor its Blocker LP has commenced activities since January 1, 2014 that would require it to file a Tax Return in any jurisdiction of a type that it had not filed in such jurisdiction for the immediately preceding taxable period for such type of Tax. All Tax Returns and related documents and records made available by the Blocker Corps to the Buyer in the electronic data room or upon specific request were true, correct and complete copies of such documents and records.

(f) Neither such Blocker Corp nor its Blocker LP has been a beneficiary of or participated in any "reportable transaction" within the meaning of Treasury Regulation Section 1.6011-4(b)(1) that was or is required to be disclosed under Treasury Regulation Section 1.6011-4.

(g) At all times since such Blocker Corp's formation of its Blocker LP, such Blocker LP has been properly treated as a partnership for federal income Tax purposes and has never made an election effective in any taxing jurisdiction to be treated as a corporation for income tax purposes.

(h) No such Blocker Corp has ever been a member of any affiliated group (within the meaning of Section 1504(a) of the Code) or similar group of entities with which such Blocker Corp joined, or was or may be required to join, for any taxable period in making a consolidated federal income Tax Return or other Tax Return in which Tax Liability was or would be required to be computed on a consolidated, combined, unitary or similar basis.

(i) No property has ever been transferred by such Blocker Corp or its Blocker LP to a person in connection with the performance of services within the meaning of Section 83 of the Code, as to which income would become reportable by the recipient of such property by reason of the receipt of such property and as to which such Blocker Corp or its Blocker LP would have any Tax withholding obligation.

(j) The representations and warranties made in this Section 5.7 cannot

be relied upon with respect to, (i) Tax liabilities arising in any taxable period other than a Pre-Closing Tax Period; provided that the forgoing shall not apply to foreclose claims for Damages from breaches of:

(i) the first sentence of Section 5.7(a) ,

(ii) the last two sentences of Section 5.7(d) ,

(iii) the second sentence of Section 5.7(e) insofar as it applies to Straddle Periods for which a Buyer Prepared Return is required to be filed,

(iv) the third sentence of Section 5.7(e) to the extent that any omitted information affects Tax obligations of such Blocker Corp or its Blocker LP for any taxable period ending after the Closing Date and such omission was reasonably not discovered or known to Buyer,

(v) Section 5.9(f) insofar as it applies to Straddle Periods for which a Buyer Prepared Return is required to be filed, and

(vi) Section 5.9(g) .

5.8 Financial Advisors . No Person, other than Cowen and Company, LLC has acted, directly or indirectly, as a broker, finder or financial advisor for the Blocker Corps in connection with the Transaction and no such Person, other than Cowen and Company, LLC, is entitled to any fee or commission or like payment from the Blocker Corps in respect thereof.

5.9 No Other Representations or Warranties . Except for the representations and warranties contained in this Article V (as modified by the Disclosure Schedule), neither, Summit PE VII-B, Summit SD IV-B, nor any other Person (including any Affiliate of such Summit Sellers) makes any other express or implied representation or warranty with respect to such Blocker Corp, and such Summit Sellers disclaim any other representations or warranties with respect to such Blocker Corp, whether made by itself or any of its Affiliates, officers, directors, employees, agents or representatives. Except for the representations and warranties contained in this Article V (as modified by the Disclosure Schedule), such Summit Sellers hereby disclaims all liability and responsibility (other than with respect to Fraud Claims) for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to the Buyer or its Affiliates or representatives (including any opinion, information, projection, or advice that may have been or may be provided to the Buyer by any director, officer, employee, agent, consultant, or representative of such Blocker Corp or any of its respective Affiliates). The disclosure of any matter or item in any schedule hereto shall not be deemed to constitute an acknowledgment that any such matter is

required to be disclosed. Notwithstanding anything to the contrary herein, this Section 5.9 shall not apply to Fraud Claims.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES RELATED TO THE SELLERS

Except as set forth in the Disclosure Schedule, each of the Sellers hereby represents and warrants to the Buyer, with respect to itself only, as of the date hereof and as of the Closing, that:

6.1 Organization and Good Standing . Such Seller is an entity or individual as set forth opposite its name on Schedule 6.1 , resident in or duly organized, validly existing and in good standing under the laws of, as applicable, the jurisdiction set forth opposite its name on Schedule 6.1 . Such Seller has all requisite power and authority to own, lease and operate its properties and carry on its business.

6.2 Authorization of Agreement . Such Seller has all requisite power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by such Seller in connection with the consummation of the Transaction (the " **Seller Documents** "), to perform its obligations hereunder and thereunder, and to consummate the Transaction. The execution, delivery and performance by such Seller of this Agreement and the Seller Documents have been duly authorized by all necessary action on behalf of such Seller. This Agreement has been, and each Seller Document shall be at or prior to the Closing, duly executed and delivered by such Seller and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each Seller Document when so executed and delivered shall constitute, the legal, valid and binding obligation of such Seller enforceable against such Seller in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

6.3 Conflicts; Consents of Third Parties .

(a) Conflicts . The execution and delivery by such Seller of this Agreement or the Seller Documents, the consummation of the Transaction, or the performance by such Seller of its obligation hereunder or thereunder shall not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, any provision of: (i) the certificate of incorporation, certificate of formation, bylaws, limited partnership

agreement and limited liability company agreement (as applicable) of such Seller; (ii) any Contract or Permit to which such Seller is a party or by which such Seller or its properties or assets are bound; (iii) any Order applicable to such Seller or by which any of the properties or assets of such Seller are bound; or (iv) any applicable Law.

(b) Third Party Consents . No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Body is required on the part of such Seller in connection with the execution and delivery of this Agreement or the Seller Documents, the performance by such Seller of any of its respective obligations hereof or thereof, the consummation of the Transaction or the taking by such Seller of any other action contemplated hereby, except for compliance with the applicable requirements of the HSR Act.

6.4 Ownership and Transfer of the Purchased Securities . Such Seller is the record and beneficial owner of the Purchased Securities set forth opposite such Seller's name: (i) as of the date hereof, on Schedule 4.4(a)(i) and Schedule 5.4(a)(i) ; and (ii) as of the Closing, on Schedule 4.4(a)(ii) and Schedule 5.4(a)(ii) , free and clear of any and all Liens other than Permitted Exceptions. Upon execution and delivery of this Agreement and the documentation required hereby, the delivery of the Purchased Securities shall convey to the Buyer good and marketable title to such Purchased Securities, free and clear of any and all Liens other than Permitted Exceptions.

6.5 Litigation . There are no Legal Proceedings pending or threatened against such Seller (or, pending or threatened, against any of the officers, directors or Employees, if any, of such Seller), or to which such Seller is otherwise a party before any Governmental Body, in each case, that would reasonably be expected to prohibit or delay the ability of the Sellers to satisfy its obligations hereunder. No Seller is subject to any Order of any Governmental Body and is not in breach or violation of any Order. There are no Legal Proceedings pending or threatened against such Seller or to which such Seller is otherwise a party relating to this Agreement or, any Company Document or the transactions contemplated hereby or thereby.

6.6 Financial Advisors . No Person, other than Cowen and Company, LLC, has acted, directly or indirectly, as a broker, finder or financial advisor for such Seller in connection with the Transaction and no such Person, other than Cowen and Company, LLC, is entitled to any fee or commission or like payment from the Seller in respect thereof.

6.7 No Other Representations or Warranties . Except for the representations and warranties contained in this Article VI (as modified by the Disclosure Schedule), neither such Seller nor any other Person (including any Affiliate of such Seller) makes any other express or implied representation or warranty with respect to such Seller, and such Seller disclaims any other representations or warranties with respect to such

Seller, whether made by itself or any of its Affiliates, officers, directors, employees, agents or representatives. Except for the representations and warranties contained in this Article VI (as modified by the Disclosure Schedule), such Seller hereby disclaims all liability and responsibility (other than with respect to Fraud Claims) for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to the Buyer or its Affiliates or representatives (including any opinion, information, projection, or advice that may have been or may be provided to the Buyer by any director, officer, employee, agent, consultant, or representative of such Seller, any other Seller, the Company, the Subsidiaries or any of their respective Affiliates). The disclosure of any matter or item in any schedule hereto shall not be deemed to constitute an acknowledgment that any such matter is required to be disclosed. Notwithstanding anything to the contrary herein, this Section 6.7 shall not apply to Fraud Claims.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES RELATED TO THE BUYER

Except as set forth in the disclosure schedule delivered to the Company prior to the execution of this Agreement (the " **Buyer Disclosure Schedule** "), the Buyer hereby represents and warrants to the Sellers and the Company that:

7.1 Organization and Good Standing . The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own, lease and operate properties and carry on its business.

7.2 Authorization of Agreement . The Buyer has full power, as the case may be, and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by the Buyer in connection with the consummation of the Transaction (the " **Buyer Documents** "), to perform its obligations hereunder and thereunder and to consummate the Transaction. The execution, delivery and performance by the Buyer of this Agreement and each Buyer Document has been duly authorized by all necessary action on behalf of the Buyer. This Agreement has been, and each Buyer Document shall be at or prior to the Closing, duly executed and delivered by the Buyer and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each Buyer Document when so executed and delivered shall constitute, the legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity,

including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

7.3 Conflicts; Consents of Third Parties.

(a) Conflicts. None of the execution and delivery by the Buyer of this Agreement or the Buyer Documents, the consummation of the Transaction, or the performance by the Buyer of its obligation hereunder or thereunder shall conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, any provision of: (i) the certificate of incorporation and by-laws of the Buyer; (ii) any Contract or Permit to which the Buyer is a party or by which the Buyer or its properties or assets are bound, other than, such conflicts, violations, defaults, terminations or cancellations that would not be reasonably expected to have a material effect on the Buyer; (iii) any Order applicable to the Buyer or by which any of the properties or assets of the Buyer are bound; or (iv) any applicable Law.

(b) Third Party Consents. No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Body is required on the part of the Buyer in connection with the execution and delivery of this Agreement or the Buyer Documents, the performance by the Buyer with any of their respective obligations hereof or thereof, the consummation of the Transaction or the taking by the Buyer of any other action contemplated hereby, except for compliance with the applicable requirements of the HSR Act.

7.4 Litigation. There are no Legal Proceedings pending or, to the knowledge of the Buyer, threatened against the Buyer, or to which the Buyer is otherwise a party before any Governmental Body, in each case, that would reasonably be expected to prohibit or delay the ability of the Buyer to satisfy its obligations hereunder. The Buyer is not subject to any Order of any Governmental Body and is not in breach or violation of any Order, in each case, related to the Transaction. There are no Legal Proceedings pending or, to the knowledge of the Buyer, threatened against the Buyer or to which the Buyer is otherwise a party relating to this Agreement or the transactions contemplated hereby.

7.5 Financial Advisors. No Person, other than Barclays Capital, Inc., has acted, directly or indirectly, as a broker, finder or financial advisor for the Buyer in connection with the Transaction and no such Person, other than Barclays Capital, Inc., is entitled to any fee or commission or like payment from the Buyer in respect thereof.

7.6 Financial Capability.

(a) Sufficient Funds. The Buyer: (i) now has, or at the Closing will have: sufficient unrestricted internal funds, which are available to pay the Purchase Price

and any expenses incurred or to be paid by the Buyer in connection with the transactions contemplated by this Agreement and the other Transaction Documents, and (ii) as of the date hereof, has not incurred any obligation, commitment, restriction or Liability of any kind which would impair or adversely affect the Buyer's right or ability to consummate the transactions contemplated by this Agreement and the other Transaction Documents.

(b) Obligations Not Conditioned On Financing . In no event shall the receipt or availability of any funds or financing by the Buyer or any Affiliate or any other financing or other transactions be a condition to any of the Buyer's obligations hereunder.

7.7 No Other Representations and Warranties . Except for the representations and warranties set forth in this Article VII (as modified by the Disclosure Schedule), the Buyer makes no other express or implied representation or warranty with respect to the Buyer, and the Buyer disclaims any other representations or warranties, whether made by itself or any of its Affiliates, officers, directors, employees, agents or representatives. Except for the representations and warranties contained in this Article VII (as modified by the Disclosure Schedule), the Buyer hereby disclaims all liability and responsibility (other than with respect to Fraud Claims) for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to the Company or the Sellers, or their Affiliates or representatives (including any opinion, information, projection, or advice that may have been or may be provided to the Company or the Sellers by any director, officer, employee, agent, consultant, or representative of the Buyer or its Affiliates). The disclosure of any matter or item in any schedule hereto shall not be deemed to constitute an acknowledgment that any such matter is required to be disclosed. Notwithstanding anything to the contrary herein, this Section 7.7 shall not apply to Fraud Claims.

7.8 Securities Law Matters .

(a) Unregistered Interest . The Buyer acknowledges that the Purchased Securities have not been registered, and shall not be registered, under the Securities Act, or any U.S. state securities laws, and the Purchased Securities may not be offered or resold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act.

(b) Accredited Investor Status . The Buyer is acquiring the Purchased Securities for its own account and not with a view to distribution (as such term is used in Section 2(11) of the Securities Act) and is an "accredited investor" within the meaning of Rule 501 (A)(1), (2), (3) or (7) under the Securities Act.

(c) Acknowledgement of Risk . The Buyer understands an investment in the Purchased Securities involves substantial risk. The Buyer has such knowledge and experience in financial and business matters as to be capable of

evaluating the merits and risks of an investment in the Purchased Securities. The Buyer may be required to bear the economic risk of its investment in the Purchased Securities indefinitely and has independently concluded that it is able to do so.

ARTICLE VIII

COVENANTS

8.1 Access to Information.

(a) Pre-Closing Access. Prior to the Closing, the Company shall provide the Buyer with reasonable access (during normal business hours) to the offices, properties, appropriate officers, books and records of the Company and the Subsidiaries. Any such access shall be during regular business hours upon reasonable advance notice and under reasonable circumstances and shall be subject to restrictions under applicable Law. The Buyer and its representatives shall cooperate with the Company and its representatives and shall use their reasonable efforts to minimize any disruption to the business. Notwithstanding anything herein to the contrary, no such access shall be permitted to the extent that it would require the Company or the Subsidiaries to disclose information subject to attorney-client privilege or conflict with any confidentiality obligations to which the Company or any of the Subsidiaries is bound. Notwithstanding anything to the contrary contained herein, prior to the Closing, without the prior consent of the Company, which shall not be unreasonably withheld, delayed or denied: (i) the Buyer shall not contact any employees, customers or suppliers of the Company or the Subsidiaries; and (ii) the Buyer shall have no right to perform invasive or subsurface investigations of the properties or facilities owned, used or occupied by the Company or the Subsidiaries.

(b) Post-Closing Access. For a period of 7 years after the Closing, the Buyer, the Blocker Corps and the Company shall give the Sellers reasonable access to the appropriate officers, books and records of the Blocker Corps and the Company (during the Company's regular business hours, upon reasonable advance notice, under reasonable circumstances and subject to restrictions under applicable Law) to the extent necessary for the preparation of insurance claims, financial statements, regulatory filings, Tax Returns of the Sellers or their Affiliates in respect of periods ending on or prior to Closing, or in connection with any Legal Proceedings or in defense of any Indemnification Claim. Neither the Blocker Corps nor the Company shall assert any privilege or conflict with respect to any information in the possession of the Sellers or their representatives as of the Closing. The Sellers shall be entitled, at their sole cost and expense, to make copies of the books and records to which they are entitled to access pursuant to this Section 8.1(b). The Buyer, the Blocker Corps and the Company shall hold all the books and records of the Blocker Corps, the Company and the Subsidiaries pursuant to Buyer's existing record retention policy, and thereafter, if the Buyer, the

Blocker Corps or the Company desires to destroy or dispose of such books and records, shall offer first, in writing and at least 90 days prior to such destruction or disposition, to instead surrender them to the Seller Representative.

8.2 Conduct of the Business Pending the Closing .

(a) Conduct in the Ordinary Course of Business . Prior to the Closing, except: (i) as set forth on Schedule 8.2(a) of the Disclosure Schedule; (ii) as required by applicable Law; (iii) as otherwise contemplated by this Agreement; or (iv) with the prior written consent of the Buyer (which consent shall not be unreasonably withheld, delayed or conditioned), the Company shall, and shall cause the Subsidiaries to, conduct the respective businesses of the Company and the Subsidiaries in the Ordinary Course of Business. Without limiting the generality of the foregoing, the Company shall use its reasonable best efforts to (i) keep intact the Company and the Subsidiaries and its business, as presently conducted and as currently proposed to be conducted in the future, and shall not take or permit to be taken or do or suffer to be done anything other than in the Ordinary Course of Business; (ii) keep available the services of the directors, officers, employees, independent contractors and agents of the Company and the Subsidiaries (in the aggregate) and retain and maintain good relationships with its clients (in the aggregate) and to maintain the Company's assets and facilities in good condition; (iii) perform its material obligations under its Contracts; and (iv) maintain the goodwill and reputation associated with the Company and the Subsidiaries.

(b) Restricted Conduct . Except: (i) as set forth on Schedule 8.2(b) of the Disclosure Schedule; (ii) as required by applicable Law; (iii) as otherwise contemplated by this Agreement; or (iv) with the prior written consent of the Buyer (which consent shall not be unreasonably withheld, delayed or conditioned), the Company shall not, and shall not permit the Subsidiaries to:

(i) Transfer of Securities : transfer, issue, sell or dispose of any membership interest or shares of capital stock or other securities of the Company or the Subsidiaries or grant options, warrants, calls or other rights to purchase or otherwise acquire any membership interest or shares of the capital stock or other securities of the Company or the Subsidiaries;

(ii) Distributions : directly or indirectly, declare or pay any dividends or make any distribution of any kind on its outstanding membership interests, other than tax distributions, or any other payment of any kind to any of its members (in their role as members) (including any redemption, purchase or acquisition of (whether in cash or property, securities or a combination thereof), any warrants, options or any of their other securities) or set aside any sum for any such purpose;

(iii) Recapitalizations : effect any recapitalization, reclassification or like change in the capitalization of the Company or the Subsidiaries;

(iv) Amendments to Organizational Documents : amend the certificate of formation or limited liability company agreements of the Company or any comparable organization documents of any of the Subsidiaries;

(v) Tax Elections, etc. : make, change or revoke any material Tax election (or any other Tax election that would be binding on any of the Company or the Subsidiaries with respect to the determination of Tax Liability any of the Company or the Subsidiaries for any taxable period or portion thereof beginning after the Closing Date), settle or compromise any claim, action, suit, litigation, proceeding arbitration, investigation, audit controversy relating to Taxes, or except as required by applicable Tax Law, make any material change to any of its methods of Tax accounting (or any other change in method of Tax accounting that would be binding on any of the Company or the Subsidiaries with respect to the determination of Tax Liability any of the Company or the Subsidiaries for any taxable period or portion thereof beginning after the Closing Date);

(vi) Employment Compensation Changes : other than as required by Law or any Contract or Company Benefit Plan: (A) increase the annual level of compensation payable or to become payable by the Company or any of the Subsidiaries to any of their respective directors or executive officers; (B) increase the annual level of compensation payable or to become payable by the Company or any of the Subsidiaries to any of their respective employees (other than directors or executive officers) outside the Ordinary Course of Business; (C) grant any material bonus to any director or executive officer of the Company or any of the Subsidiaries; (D) grant any material bonus to any employee (other than any director or executive officer) of the Company or any of the Subsidiaries outside the Ordinary Course of Business; (E) materially increase the coverage or benefits available under any Company Benefit Plan; (F) amend, in any material respect, or establish or adopt any Company Benefit Plan; or (G) hire, employ or engage (or agree to commit to hire, employ or engage) any new employees or individual consultants (other than with respect to any existing position that is or has become vacant), or terminate the employment of any existing employees (other than for poor performance or other cause);

(vii) Liens : subject any of the properties or assets (whether tangible or intangible) of the Company or the Subsidiaries to any Lien, except for Permitted Exceptions and Liens under any Indebtedness of the Company or the Subsidiaries to be released pursuant to the Debt Payoff Amounts;

(viii) Dispositions of Assets : sell, assign, license, transfer, convey, lease or otherwise dispose of any of the material properties or assets of the Company and the Subsidiaries (except sales of inventory in the Ordinary Course of Business or for the purposes of disposing of obsolete or worthless assets);

(ix) Leases : enter into any Real Property Leases;

(x) Material Contracts : (A) enter into any Contract (i) which would be required to be listed on Schedule 4.11 or Schedule 4.12 had it been entered into prior to the date hereof, or (ii) in which any Affiliate of any Seller has any beneficial interest, (B) intentionally breach, amend or prematurely terminate, or waive any material right or remedy under, any Material Contract;

(xi) Cancellation of Debt : other than in the Ordinary Course of Business, cancel or compromise any material debt or claim owing to the Company or the Subsidiaries;

(xii) Indebtedness : create, incur or assume any Liability or Indebtedness, except in the Ordinary Course of Business, or postpone or defer the creation, incurrence or assumption of any Liability or Indebtedness that would otherwise be created, incurred or assumed in the Ordinary Course of Business;

(xiii) General Capital Commitments : enter into any commitment for capital expenditures of the Company or the Subsidiaries in excess of $100,000 for any individual commitment and $200,000 in the aggregate;

(xiv) Mergers : permit the Company or any of the Subsidiaries to enter into or agree to enter into any merger or consolidation with any Person or acquire stock or assets (other than suppliers or inventory in the Ordinary Course of Business) of any other Person having a value in excess of $100,000 for any individual commitment or $200,000 in the aggregate;

(xv) Accounts Receivable : write-off as uncollectible, or establish any extraordinary reserve with respect to, any account receivable or other receivable, except as may be required by Law or GAAP;

(xvi) Legal Proceeding : commence or settle any Legal Proceeding, action, demand, or claim, other than any legal proceeding, action, demand, or claim not in excess of $100,000; *provided* , that such settlement documents related to any settlement do not involve any material non-monetary obligations on the part of the Company or the Buyer;

(xvii) Existing Licenses : terminate any material license, covenant, Contract or other agreement set forth on Schedule 4.11(i)(i) , waive, release or

assign any material rights or claims under any such license, covenant, Contract or other agreement, or modify or amend any such license, covenant, Contract or other agreement in any adverse respect, all except in the ordinary course of business consistent with past practice;

(xviii) Sale and License of Intellectual Property : (A) sell or license any Intellectual Property to any Person (or enter into any contract or other agreement for the sale or license of any Intellectual Property to any Person), other than in the Ordinary Course of Business; or

(xix) Agreement to Effect : enter into any agreement to do anything prohibited by this Section 8.2(b) .

(c) Conduct of the Blocker Corps and Blocker LPs Pending Closing . Except as set forth on Schedule 8.2(c) , each of the Blocker Corps shall not, and shall cause its Blocker LP to not, without the prior written consent of the Buyer (which consent shall not be unreasonably withheld, delayed or conditioned) take any action not consistent with its role as special purpose holding company, including:

(i) Transfer of Securities : transfer, issue, sell or dispose of any membership interest or shares of capital stock or other securities of such Blocker Corp or its Blocker LP or grant options, warrants, calls or other rights to purchase or otherwise acquire any membership interest or shares of the capital stock or other securities of its Blocker LP, the Company or the Subsidiaries;

(ii) Distributions : directly or indirectly, declare or pay any dividends or make any distribution of any kind on its outstanding stock or other equity securities;

(iii) Recapitalizations : effect any recapitalization, reclassification or like change in the capitalization of such Blocker Corp or its Blocker LP;

(iv) Amendments to Organizational Documents : amend the certificate of incorporation or bylaws of such Blocker Corp or its Blocker LP;

(v) Agreements : enter into any Contract (other than the Blocker Corp documents);

(vi) Tax Elections, etc. : make, change or revoke any material Tax election (or any other Tax election that would be binding on such Blocker Corp with respect to the determination of Tax Liability of such Blocker Corp for any taxable period or portion thereof beginning after the Closing Date), change an annual accounting period for Tax purposes, file any amended Tax Return, settle or compromise any claim, action, suit, litigation, proceeding arbitration,

investigation, audit controversy relating to Taxes, or except as required by applicable Law, adopt or make any material change to any of its methods of Tax accounting (or any other change to any method of Tax Accounting Tax that would be binding on such Blocker Corp or with respect to the determination of Tax Liability of such Blocker Corp for any taxable period or portion thereof beginning after the Closing Date); consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to such Blocker Corp or its Blocker LP, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, settlement, consent or other action would have the effect of increasing the Tax liability of such Blocker Corp for any taxable period;

(vii) Liens : subject any of the properties or assets (whether tangible or intangible) of the Blocker Corp or its Blocker LP to any Lien, except for Permitted Exceptions;

(viii) Sales and Dispositions of Assets : acquire or sell, assign, license, transfer, convey, lease or otherwise dispose of any assets;

(ix) Mergers : permit the Blocker Corp or its Blocker LP to enter into or agree to enter into any merger or consolidation with any Person; or

(x) Agreement to Effect : enter into any agreement to do anything prohibited by this Section 8.2(c) .

8.3 Consents . From the date hereof until the Closing, the Buyer, the Sellers, the Company and the Blocker Corps shall use (and the Company shall cause the Subsidiaries to use, and the Blocker Corps shall cause its Blocker LP to use) their commercially reasonable efforts to obtain at the earliest practicable date all consents and approvals required to consummate the Transaction, including, without limitation, the consents and approvals referred to on Schedule 4.3(b) , Schedule 5.3(b) and Schedule 6.3(b) of the Disclosure Schedule and Schedule 7.3(b) of the Buyer Disclosure Schedule, provided , however , that no party shall be obligated to pay any consideration to any third party from whom consent or approval is requested. Except with respect to breaches of the representations and warranties made in Article IV , Article V or Article VI and breaches of covenants pursuant to this Article VIII , none of the Sellers, the Company or the Blocker Corps shall have any liability to the Buyer with respect to losses related to the failure of the Company or the Subsidiaries to obtain any consent or approval prior to the Closing.

8.4 Regulatory Approvals .

(a) Effect; Filings; Approvals; Authorizations . Each of the parties agrees to use its reasonable best efforts to take, or cause to be taken, all actions, to file, or

cause to be filed, all documents and to do, or cause to be done, all things necessary, proper or advisable to consummate the Transaction, including preparing and filing as promptly as practicable all documentation to effect all necessary filings, consents, waivers, approvals, authorizations, permits or orders from all Governmental Bodies. In furtherance and not in limitation of the foregoing, each party hereto agrees: (i) to the extent not completed prior to the date hereof, to make or cause to be made an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the Transaction as promptly as practicable (and in any event within seven (7) Business Days) after the date hereof; and (ii) to supply as promptly as reasonably practicable any additional information and documentary material that may be requested pursuant to the HSR Act.

(b) Cooperation and Provision of Information. Further, and without limiting the generality of the rest of this Section 8.4, each of the parties shall cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry and shall promptly: (i) furnish to the other such necessary information and reasonable assistance as the other parties may request in connection with the foregoing; (ii) inform the other of any communication from any Governmental Body regarding the Transaction; and (iii) provide counsel for the other parties with copies of all filings made by such party, and all correspondence between such party (and its advisors) with any Governmental Body and any other information supplied by such party and such party's Affiliates to a Governmental Body or received from such a Governmental Body in connection with the Transaction; provided, however, that materials may be redacted as necessary to comply with contractual arrangements and with applicable Law. Each party hereto shall, subject to applicable Law, permit counsel for the other parties to review in advance, and consider in good faith the views of the other parties in connection with, any proposed written communication to any Governmental Body in connection with the Transaction. The parties agree not to participate, and not to permit their Affiliates to participate, in any substantive meeting or discussion, either in person or by telephone, with any Governmental Body in connection with the Transaction unless it consults with the other parties in advance and, to the extent reasonably appropriate under the circumstances and not prohibited by such Governmental Body, gives the other parties the opportunity to attend and participate.

(c) Efforts; Divestitures. If any administrative or judicial action or proceeding is instituted (or threatened to be instituted) to prohibit the Transaction contemplated by this Agreement, Buyer will use its commercially reasonable efforts to avoid the institution of any such action or proceeding and to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any temporary, preliminary or permanent decree, judgment, injunction or other order that is in effect and that prohibits, prevents, delays or restricts consummation of the transactions contemplated hereby (it being understood that the foregoing obligation of Buyer will cease in the event a permanent decree, judgment, injunction or other order is issued or is

in effect that is non-appealable and prohibits consummation of the transactions contemplated hereby). Notwithstanding the foregoing or anything to the contrary contained in this Agreement, the parties hereby agree and acknowledge that neither this Section 8.4 nor the "reasonable best efforts" standard shall require, or be construed to require, other than as set forth in the provisos below, Buyer or any of its respective Subsidiaries or other Affiliates to (i)(A) sell, lease, license, transfer, dispose of, divest or otherwise encumber, or hold separate pending any such action, or (B) propose, negotiate or offer to effect, or consent or commit to, any such sale, leasing, licensing, transfer, disposal, divestiture or other encumbrance, or holding separate, before or after the Closing Date, of any assets, licenses, operations, rights, product lines, businesses or interest therein of Buyer or the Company (or any of their respective Subsidiaries or other Affiliates), or (ii) take or agree to take any other action or agree or consent to any limitations or restrictions on freedom of actions with respect to, or its ability to retain, or make changes in, any such assets, licenses, operations, rights, product lines, businesses or interest therein of Buyer or the Company (or any of their respective Subsidiaries or other Affiliates); provided , however , that Buyer can compel the Company to take any of the actions referred to above (or agree to take such actions) if such actions are only effective after the Closing Date.

8.5 Further Assurances . Subject to, and not in limitation of, Section 8.4 , each of the Buyer, the Sellers and the Company shall use (and the Company shall cause each of the Subsidiaries to use) its reasonable best efforts to: take all actions necessary or appropriate to: (a) obtain all consents, approvals or actions of, make all filings with and give all notices to Governmental Bodies or any other Person required to consummate the Transaction and the other matters contemplated hereby; (b) provide such other information and communications to such Governmental Bodies or other public or private Persons as the other Party or such Governmental Bodies or other public or private Persons may reasonably request in connection therewith; and (c) execute such further documents, deeds, bills of sale, assignments and assurances and take such further actions as may reasonably be required to consummate and make effective the Transaction, including, without limitation, the satisfaction of all conditions hereto.

8.6 Confidentiality, Non-Solicit .

(a) Buyer's Obligations . The Buyer acknowledges that the information provided to it in connection with this Agreement and the Transaction is subject to the terms of the confidentiality agreement between the Buyer and the Company dated February 2, 2012 (the " **Confidentiality Agreement** "), the terms of which are incorporated herein by reference. Effective upon, and only upon, the Closing, the Confidentiality Agreement shall terminate.

(b) Sellers' Obligations.

(i) Non-Solicitation. For a period of 5 years from and after the date hereof, the Sellers shall not, and shall cause their directors, officers, general partners and employees not to, and shall not cause their controlled Affiliates to, directly or indirectly, cause, solicit, induce or encourage any employees of the Company or the Subsidiaries to leave such employment or hire, employ or otherwise engage any such individual; provided that, this Agreement shall in no way restrict any Seller or any directors, officers, employees or controlled Affiliates thereof from soliciting for employment any Person through means of a general advertisement for employment in a newspaper of general circulation or by other similar means.

(ii) Confidentiality. From and after the date hereof, the Sellers shall not and shall cause their directors, officers, employees and Affiliates not to, directly or indirectly, disclose, reveal, divulge or communicate to any Person other than authorized officers, directors and employees of the Buyer or the Company or use or otherwise exploit for its own benefit or for the benefit of anyone other than the Buyer or the Company, any Confidential Information (as defined below). The Sellers shall not have any obligation to keep confidential (or cause its officers, directors or Affiliates to keep confidential) any Confidential Information if and to the extent disclosure thereof is specifically required by applicable Law; provided, however, that in the event disclosure is required by applicable Law, the Sellers shall, to the extent reasonably possible, provide the Buyer with prompt notice of such requirement prior to making any disclosure so that the Buyer may seek an appropriate protective order. This obligation of confidentiality shall not apply to any exercise of the Seller's rights hereunder or in any dispute with the Buyer with respect to this Agreement, the Transaction Documents or the Transaction.

8.7 Indemnification, Exculpation and Insurance.

(a) Indemnitees. For a period of six (6) years after the Closing Date, the Company shall indemnify, defend and hold harmless, to the fullest extent permitted under applicable Law, the Persons who on or prior to the Closing Date were managers, directors, officers, employees of the Company, the Blocker Corps or any of the Subsidiaries (collectively, the "**Indemnitees**") with respect to all acts or omissions by them or taken at the request of the Company or any of the Subsidiaries. The Company, the Blocker Corps and the Buyer agree that all rights of the Indemnitees to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Closing Date as provided in the respective certificate of formation or limited liability company agreement or comparable organizational documents of the Company, the Blocker Corps or any of the Subsidiaries as now in effect, and any indemnification agreements or arrangements of the Company, the Blocker Corps or any of the Subsidiaries shall survive the Closing Date and shall continue in full force and effect in

accordance with their terms. Such rights shall not be amended, or otherwise modified in any manner that would adversely affect the rights of the Indemnitees, unless such modification is required by Law. In addition, the Company shall pay any expenses of any Indemnitee under this Section 8.7, as incurred to the fullest extent permitted under applicable Law, provided that the person to whom expenses are advanced provides an undertaking to repay such advances to the extent required by applicable Law.

(b) Indemnitors. The Company, the Blocker Corps and the Buyer hereby acknowledges that certain Indemnitees may have rights to indemnification, advancement of expenses and/or insurance provided by Affiliates of Summit Partners L.P. (other than the Company and the Subsidiaries) (collectively, the "**Secondary Indemnitors**"). The Company hereby agrees: (i) that it is the indemnitor of first resort (i.e., its obligations to the Indemnitees are primary and any obligation of the Secondary Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by the Indemnitees are secondary); (ii) that it shall be required to advance the full amount of expenses incurred by any Indemnitee and shall be liable for the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of this Agreement and certificate of incorporation, certificate of formation, by-laws, limited partnership agreement or limited liability company agreement or comparable organizational documents of the Company and each of the Subsidiaries (or any other agreement between the Company or any Subsidiaries and any such Indemnitee), without regard to any rights the Indemnitee may have against the Secondary Indemnitors; and (iii) that it irrevocably waives, relinquishes and releases the Secondary Indemnitors from any and all claims against the Secondary Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company, the Blocker Corps and the Buyer further agrees that no advancement or payment by the Secondary Indemnitors on behalf of any Indemnitee with respect to any claim for which such Indemnitee has sought indemnification from the Company shall affect the foregoing and the Secondary Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of the Indemnitee against the Company or any Subsidiary. The Company, the Buyer and the Indemnitees agree that the Secondary Indemnitors are express third party beneficiaries of the terms of this Section 8.7(b).

(c) Directors and Officers Insurance. For a period of 6 years after the Closing Date, the Company, the Subsidiaries and the Blocker Corps shall maintain in effect the current policies of directors' and officers' liability insurance maintained by the Company, the Subsidiaries and the Blocker Corps immediately prior to the Closing Date (provided that a "run-off" or "tail" policy for a period of 6 years with a reputable and financially sound carrier of at least the same coverage and amounts containing terms and conditions that are no less advantageous may substituted therefore) with respect to claims arising from or related to facts or events that occurred at or before the Closing

Date *provided, however* , that, if the annual premium for such insurance shall exceed 250% of the current annual premium (such 250% threshold, the " **Maximum Premium** "), then Buyer shall provide or cause to be provided a policy with the best coverage as shall be available at an annual premium not in excess of the Maximum Premium.

(d) No Substitution of Rights . The provisions of this Section 8.7 : (i) are intended to be for the benefit of, and shall be enforceable by, each Indemnitee, his or her heirs and his or her representatives; and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by Contract or otherwise.

(e) Successor Obligation . In the event that the Company, any Blocker Corp, any Subsidiary or any of their respective successors or assigns: (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger; or (ii) transfers or conveys all or substantially all of its properties and assets to any person, then, and in each such case, proper provision shall be made so that the successors and assigns of the Company or the Subsidiary, as applicable, shall assume all of the obligations thereof set forth in this Section 8.7 .

(f) Consent . The obligations of the Company under this Section 8.7 shall not be terminated or modified in such a manner as to adversely affect any Indemnitee to whom this Section 8.7 applies without the consent of the affected Indemnitee (it being expressly agreed that the Indemnitees to whom this Section 8.7 applies shall be third party beneficiaries of this Section 8.7).

8.8 Publicity .

(a) Press Releases; Public Announcement . Prior to the Closing Date, none of the Company, the Buyer or the Sellers shall issue any press release or public announcement concerning this Agreement or the Transaction without obtaining the prior written approval of the Buyer and the Seller Representative, unless, in the sole judgment of the Company, the Buyer or the Seller, as applicable, disclosure is otherwise required by applicable Law or by the applicable rules of any stock exchange on which the Company, the Buyer or the Seller lists securities; provided that, to the extent required by applicable Law, the party intending to make such release shall use its commercially reasonable efforts consistent with such applicable Law to consult with the other party with respect to the timing and content thereof; provided , further , that the Sellers and the Buyer are permitted to report and disclose the terms and status of this Agreement and the Transaction to their and their Affiliate's limited partners and on their websites and otherwise in the ordinary course of their business after the Closing Date.

(b) Confidentiality of the Agreement. Each of the Buyer, the Sellers and the Company agree that the terms of this Agreement shall not be disclosed or otherwise made available to the public and that copies of this Agreement shall not be publicly filed or otherwise made available to the public, except where such disclosure, availability or filing is required by applicable Law and only to the extent required by such Law. In the event that such disclosure, availability or filing is required by applicable Law, each of the Buyer, the Sellers and the Company (as applicable) agrees to use its commercially reasonable efforts to obtain "confidential treatment" of this Agreement with the U.S. Securities and Exchange Commission (or the equivalent treatment by any other Governmental Body) and to redact such terms of this Agreement as the other party shall request.

8.9 No Solicitation. The Company and the Sellers shall not (and the shall cause their Representatives and Affiliates not to) solicit or encourage the initiation or submission of interest, offers, inquiries or proposals (or consider or entertain any of the foregoing) from any Person (including, without limitation, by way of providing any non-public information concerning the Company, its business or assets to any Person or otherwise), initiate or participate in any negotiations or discussions, or enter into, accept or authorize any agreement or agreement in principle, or announce any intention to do any of the foregoing, with respect to any expression of interest, offer, proposal to acquire, purchase, license, or lease (other than, in the case of licenses or leases, non-exclusive licenses or leases to end users on customary terms in the Ordinary Course of Business and in the case of purchases or sales to customers in the Ordinary Course of Business) (i) all or a substantial portion of the Company's or the Subsidiaries' business or assets (including, without limitation the Company Intellectual Property Rights), or (ii) the Company's capital stock or other securities (a "**Competing Transaction**"). The Company and the Sellers shall, and the shall cause their Representatives and Affiliates to, immediately discontinue any ongoing discussions or negotiations (other than any ongoing discussions with Buyer) relating to a possible Competing Transaction, and shall, to the extent not in conflict with any confidentiality obligation of the Company or the Sellers, promptly provide Buyer with a written notice of any expression of interest, proposal or offer relating to a possible Competing Transaction that is, directly or indirectly, received by the Company or the Sellers, which notice shall contain the nature of the proposal proposed and the material terms of the proposal and include copies of any such notice, inquiry or proposal.

8.10 Disclosure Schedule.

(a) Inclusion of Non-Material Items. The Company and the Sellers may, at their discretion, include in the Disclosure Schedule items that are not material in order to avoid any misunderstanding, and such inclusion, or any references to dollar amounts, shall not be deemed to be an acknowledgement or representation that such

items are material, to establish any standard of materiality or to define further the meaning of such terms for purposes of this Agreement.

(b) Disclosure For All Purposes . Information disclosed in the Disclosure Schedule shall constitute a disclosure for all purposes under this Agreement in which it is readily apparent on the face of such disclosure that the information is required to be included, notwithstanding any reference to a specific section.

8.11 Reserved .

8.12 Release of Claims . In consideration of the Purchase Price and effective as of the Closing, each Seller agrees to and does hereby irrevocably and unconditionally waive, release and forever discharge the Company and the Subsidiaries, and each of their respective officers, directors, agents, employees, shareholders, investors, employee benefit plans and their administrators or fiduciaries, any insurer of any such entities, and its and their successors and assigns and others related to such entities (collectively, the " **Released Parties** "), from any and all claims arising out of or as a consequence of the Seller's ownership of shares in the Company, not inclusive of: (i) any claims arising under this Agreement or any other Transaction Document; and (ii) any claim not in such Seller's role as a direct or indirect securityholder of the Company.

8.13 Section 280G .

(a) The Company shall, prior to soliciting the vote of stockholders with respect to the 280G Proposal, request a parachute payment waiver (" **Parachute Payment Waiver** ") from each Person who is or reasonably could be, with respect to the Company and/or any Affiliate, a "disqualified individual" (within the meaning of Section 280G of the Code and the regulations promulgated thereunder), as determined immediately prior to the initiation of the stockholder solicitation required by this Section 8.13(a) , and who reasonably might otherwise receive, have received, or have the right or entitlement to receive an excess parachute payment under Section 280G of the Code (all such Persons being set forth on Schedule 8.13(a) , as updated immediately prior to the initiation of the stockholder solicitation required by Section 8.13(c) , and the Company shall deliver to Buyer any Parachute Payment Waiver thus received.

(b) Using calculations provided by the Company, Buyer shall prepare and deliver to the Company the requisite information statement to be delivered to the stockholders of the Blocker Corps in connection with the solicitation of such stockholders in accordance with the terms of Section 280G(b)(5)(B) of the Code. The information statement shall be subject to the Company's prior review and approval, which shall not be unreasonably withheld or delayed.

(c) Upon receipt of the approved information statement contemplated by Section 8.13(b) , the Company shall use its commercially reasonable efforts to solicit

the vote of the stockholders of the Blocker Corps in accordance with the terms of Section 280G(b)(5)(B) of the Code (the " **280G Proposal** ") so that such vote, if obtained, will render the parachute payment provisions of Section 280G and Section 4999 of the Code inapplicable to any and all payments and/or benefits provided pursuant to Contracts or arrangements that, in the absence of the executed Parachute Payment Waivers by the affected Persons under Section 8.13 might otherwise reasonably result, separately or in the aggregate, in the payment of any amount and/or the provision of any benefit that would not be deductible by reason of Section 280G of the Code or subject to an excise tax by reason of Section 4999 of the Code, with such stockholder approval to be solicited in a manner which satisfies all applicable requirements of such Section 280G(b)(5)(B) of the Code and the Treasury Regulations thereunder, including Q-7 of Section 1.280G-1 of such Treasury Regulations. The documentation constituting the 280G Proposal shall be subject to the Buyer's prior review and approval, which shall not be unreasonably withheld or delayed.

ARTICLE IX

CONDITIONS TO CLOSING

9.1 Conditions Precedent to Obligations of the Buyer . The obligation of the Buyer to consummate the Transaction is subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions (any or all of which may be waived by the Buyer in whole or in part to the extent permitted by applicable Law):

(a) Accuracy of Representations and Warranties .

(i) If the Closing occurs on or before December 5, 2014: (1) The representations and warranties related to the Company set forth in Article IV , related to the Blocker Corps set forth in Article V and related to the Sellers set forth in Article VI that are qualified by reference to materiality or Material Adverse Effect shall be true and correct in all respects; and (2) the representations and warranties related to the Company set forth in Article IV , related to the Blocker Corps set forth in Article V and related to the Sellers set forth in Article IV that are not so qualified shall be true and correct, except where the failure of any such representation or warranty not to be so true and correct would not, individually or in the aggregate, constitute a Material Adverse Effect (except the representations and warranties of Section 4.1 (Organization and Good Standing), Section 4.2 (Authorization of Agreement), Section 4.4 (Capitalization), Section 4.9 (Taxes), Section 4.14 (Employee Benefit Plans), Section 4.20 (Environmental Matters), Section 4.21 (Financial Advisors), Section 5.1 (Organization and Good Standing), Section 5.2 (Authorization of Agreement), Section 5.4 (Capitalization), Section 5.7 (Taxes), Section 5.8 (Financial Advisors), Section 6.1 (Organization and Good Standing), Section 6.2 (Authorization of Agreement), Section 6.4

(Ownership) and Section 6.6 (Financial Advisors) (such representations and warranties, collectively, the " **Fundamental Representations** ") which shall be true and correct in all material respects), in each case, as of the date hereof and as of the Closing Date as if made on and as of the Closing Date (except to the extent that any such representation or warranty, by its terms, is expressly limited to a specific date, in which case, as of such specific date), and the Buyer shall have received a certificate signed by an authorized officer of the Company, dated the Closing Date, to the foregoing effect.

(ii) If the Closing occurs after December 5, 2014: (1) The representations and warranties related to the Company set forth in Article IV , related to the Blocker Corps set forth in Article V and related to the Sellers set forth in Article VI that are qualified by reference to materiality or Material Adverse Effect shall be true and correct in all respects; and (2) the representations and warranties related to the Company set forth in Article IV , related to the Blocker Corps set forth in Article V and related to the Sellers set forth in Article IV that are not so qualified shall be true and correct in all material respects, in each case, as of the date hereof and as of the Closing Date as if made on and as of the Closing Date (except to the extent that any such representation or warranty, by its terms, is expressly limited to a specific date, in which case, as of such specific date), and the Buyer shall have received a certificate signed by an authorized officer of the Company, dated the Closing Date, to the foregoing effect.

(b) Performance of Obligations . The Company, the Blocker Corps and the Sellers shall have performed and complied in all material respects with all obligations and agreements required by this Agreement to be performed or complied with by them on or prior to the Closing Date, and the Buyer shall have received a certificate signed by an authorized officer of the Company, dated the Closing Date, to the foregoing effect.

(c) No Prohibition of Transaction . There shall not be in effect any Order by a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the Transaction.

(d) No Material Adverse Effect . There shall not have occurred any effect, event or change, after the date hereof, which, individually or in the aggregate with all other such effects, events or changes, has had or would be reasonably likely to result in a Material Adverse Effect.

(e) HSR Waiting Period . The waiting period applicable to the Transaction under the HSR Act shall have expired or early termination shall have been granted, and any consents or clearances required pursuant to applicable to foreign antitrust Laws have been received.

(f) Escrow Agreement . On or prior to the Closing Date, the Buyer shall have received the Escrow Agreements by and between the Buyer and the Seller Representative, substantially in the form attached hereto as EXHIBIT D (collectively, the " **Escrow Agreement** "), duly executed by the Seller Representative.

(g) Certificate of Non-Foreign Status . On or prior to the Closing Date, the Buyer shall have received a certificate of each Seller's non-foreign status complying with the provisions of Treasury Regulation Section 1.1445-2(b).

If the Closing occurs, all closing conditions set forth in this Section 9.1 which have not been fully satisfied as of the Closing shall be deemed to have been fully waived; provided, however, that such waiver shall not be deemed to cure any breach of representations, warranties or covenants, for purposes of determining any party's obligations under Article X hereto.

9.2 Conditions Precedent to Obligations of the Company, the Blocker Corps and the Sellers . The obligations of the Company, the Blocker Corps and the Sellers to consummate the Transaction are subject to the fulfillment, prior to or on the Closing Date, of each of the following conditions (any or all of which may be waived by the Company in whole or in part to the extent permitted by applicable Law):

(a) Accuracy of Representations and Warranties . (i) The representations and warranties related to the Buyer set forth in Article VII that are qualified by reference to materiality shall be true and correct in all respects; and (ii) the representations and warranties related to the Buyer set forth in Article VII that are not so qualified shall be true and correct in all material respects (except the representations and warranties of Section 7.1 (Organization and Good Standing), Section 7.2 (Authorization of Agreement) and Section 7.5 (Financial Advisors) which shall be true and correct in all respects), in each of cases (i) and (ii), as of the Closing Date as if made on and as of the Closing Date (except to the extent that any such representation or warranty, by its terms, is expressly limited to a specific date, in which case, as of such specific date), and the Company shall have received a certificate signed by an authorized officer of the Buyer, dated the Closing Date, to the foregoing effect.

(b) Performance of Obligations . The Buyer shall have performed and complied in all material respects with all obligations and agreements required by this Agreement to be performed or complied with by the Buyer on or prior to the Closing Date, and the Company shall have received a certificate signed by an authorized officer of the Buyer, dated the Closing Date, to the foregoing effect.

(c) No Prohibition of Transaction . There shall not be in effect any Order by a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the Transaction.

(d) HSR Waiting Period. The waiting period applicable to the Transaction under the HSR Act shall have expired or early termination shall have been granted.

(e) Escrow Agreement. On or prior to the Closing Date, the Buyer shall have delivered to the Sellers, the Escrow Agreement, duly executed by the Buyer.

If the Closing occurs, all closing conditions set forth in this Section 9.2 which have not been fully satisfied as of the Closing shall be deemed to have been fully waived; provided, however, that such waiver shall not be deemed to cure any breach of representations, warranties or covenants, for purposes of determining any party's obligations under Article X hereto.

9.3 Frustration of Closing Conditions. None of the Company, the Blocker Corps, the Buyer or the Sellers may rely on the failure of any condition set forth in Sections 9.1 or 9.2, as the case may be, if such failure was primarily caused by such party's failure to comply with any provision of this Agreement.

ARTICLE X

INDEMNIFICATION

10.1 Indemnification of the Buyer.

(a) Selling Party Breaches; Pre-Closing Taxes. After the Closing Date and pursuant to the provisions and limitations set forth in this Article X:

(i) Company Indemnification: each of the Sellers shall, severally and not jointly, indemnify, defend and hold harmless the Buyer and its Affiliates and their respective officers, directors, agents, employees, managers, partners, stockholders, attorneys, representatives, successors and assigns (each hereinafter referred to individually as a "**Buyer Indemnified Person**" and collectively as "**Buyer Indemnified Persons**"), from and against, such Seller's Pro-rata Portion of any and all claims, actions, losses, costs, damages, Liabilities, deficiencies, demands, judgments, interest, fines, penalties, suits, causes of action, assessments, awards, and expenses, including reasonable attorneys' fees, costs of investigation or settlement, other professionals' and experts' fees, and court or arbitration costs (hereinafter collectively referred to as "**Damages**") based upon, attributable to or resulting from: (A) the failure of any of the representations or warranties made by the Company in Article IV hereof or any Company Document to be true and correct in all respects at and as of the date hereof and the Closing Date; or (B) the breach of any covenant contained herein or other agreement that, by its terms, relates to conduct prior to the Closing Date on the part of the Company (the "**Company Breaches**");

(ii) Blocker Corp Indemnification : each of the Blocker Corp Sellers shall, severally and not jointly, indemnify, defend and hold harmless the Buyer Indemnified Persons from and against any and all Damages based upon, attributable to or resulting, directly or indirectly, from: (A) the failure of any of the representations or warranties related to the Blocker Corp owned by such Blocker Corp Seller in Article V hereof or any Blocker Corp Document to be true and correct in all respect at and as of the date hereof and the Closing Date; (B) the breach of any covenant contained herein or other agreement on the part of the Blocker Corp Sellers; or (C) any and all Liabilities of the Blocker Corps arising out of the activities of the Blocker Corps on or before the Closing Date (the " **Blocker Corp Breaches** "); and

(iii) Seller Indemnification : each of the Sellers shall, severally and not jointly, indemnify, defend and hold harmless the Buyer Indemnified Persons from and against any and all Damages based upon, attributable to or resulting, directly or indirectly from: (A) the failure of any of the representations or warranties related to such Seller in Article VI hereof or any Seller Documents to be true and correct in all respects at and as of the date hereof and the Closing Date; or (B) the breach of any covenant contained herein or other agreement on the part of such Seller (the " **Individual Seller Breaches** " and, together with Company Breaches and Blocker Corp Breaches, " **Selling Party Breaches** ").

The right to indemnification or any other remedy based on representations, warranties, covenants and agreements in this Agreement, or any Seller Documents, Company Documents or Blocker Corp Documents, shall not be affected by any investigation conducted at any time, or any knowledge acquired (or capable of being acquired) at any time, with respect to the accuracy or inaccuracy of, or compliance with, any such representation, warranty, covenant or agreement. For purposes of calculating the amount of Damages hereunder, any materiality or Material Adverse Effect qualifications in the representations, warranties, covenants and agreements shall be disregarded.

(b) Tax Indemnity .

(i) Company Taxes . Without duplication of any other indemnification rights under this Agreement, each of the Sellers shall, severally and not jointly, indemnify and hold harmless the Buyer Indemnified Persons from and against any and all Damages attributable to (1) any and all Pre-Closing Taxes of the Company and the Subsidiaries to the extent such Pre-Closing Taxes are not taken into account as a Current Liability in the computation of Closing Working Capital or Closing Cash, (2) all Taxes required to be paid by the Company or any Subsidiary after the Closing by reason of the Company or any Subsidiary (or a predecessor of such entities) having been a member of an affiliated, consolidated,

combined, or unitary group on or prior to the Closing, including pursuant to Treasury Regulation Section 1.1502-6 or any analogous or similar state, local, or foreign law, rule, or regulation, and (3) any and all Taxes of any Person (other than the Company and the Subsidiaries) required to be paid by the Company or any Subsidiary by contract or pursuant to law, rule, or regulation, or as a transferee or successor if the status of the Company or Subsidiary as transferee or successor is attributable to an event or transaction occurring before the Closing.

(ii) Blocker Corp Taxes . Without duplication of any other indemnification rights under this Agreement, each of the Blocker Corp Sellers shall, severally and not jointly, indemnify and hold harmless the Buyer Indemnified Persons from and against any and all Damages attributable to (1) Pre-Closing Taxes of the Blocker Corp sold by the Blocker Corp Seller to the extent that such Pre-Closing Taxes are not taken into account as a Current Liability in the computation of Closing Working Capital, (2) all Taxes required to be paid by such Blocker Corp after the Closing by reason of such Blocker Corp having been a member of an affiliated, consolidated, combined, or unitary group prior to the Closing, including pursuant to Treasury Regulation Section 1.1502-6 or any analogous or similar state, local, or foreign law, rule, or regulation, and (3) any and all Taxes of any Person (other than such Blocker Corp, but including its Blocker LP) required to be paid by such Blocker Corp by contract or pursuant to law, rule, or regulation or as a transferee or successor if the status of such Blocker Corp as a transferee or successor is attributable to an event or transaction occurring before the Closing, or pursuant to this Agreement (including the liquidation of its Blocker LP).

(iii) Straddle Period Allocation . The parties shall, unless prohibited by applicable Law, treat each current taxable period of the Company, the Subsidiaries, and each Blocker Corp as ending at the close of business on the Closing Date. For purposes of this Agreement, Taxes incurred by such entity with respect to a Straddle Period shall be allocated to the portion of the period ending on the Closing Date (A) except as provided in (B) below, with respect to periodically assessed Taxes (such as personal and real property Taxes) in proportion to the number of days in such period occurring before the Closing Date compared to the total number of days in such period, and (B) in the case of any Tax based on income or receipts or a specific transaction or event, in an amount equal to the Tax which would be payable if the taxable period of such entity beginning before and ending after the Closing Date had ended at the close of business on the Closing Date; provided that exemptions, allowances and deductions that are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be allocated between the period ending on the Closing Date and the period after the Closing Date in proportion to the number of days in each such period. For the elimination of doubt, any

transfer Taxes imposed on such entity attributable to the Transaction shall be allocated to the portion of the period ending on the Closing Date.

(iv) Closing Date Transactions. Notwithstanding any other provision of this Agreement, the Sellers shall have no indemnification obligation pursuant to this Section 10.1(b) for Taxes attributable to transactions undertaken without the written approval of the Seller Representative after the Closing on the Closing Date that are outside of the Ordinary Course of Business or the ordinary course of business of the Blocker Corps, except by reason of consummation of the Transaction.

(c) Deductible. The indemnification provided for in this Section 10.1(a) shall not apply and the Sellers shall not have any obligations or liability related to or arising from this Agreement or the Transaction (whether in contract, tort or otherwise) related to Selling Party Breaches, unless and until the aggregate Damages arising out of Selling Party Breaches exceeds a cumulative aggregate of $1,000,000 (the "**Deductible**"), in which event the Buyer Indemnified Persons shall, subject to the other limitations herein, be indemnified for only such Damages in excess of the Deductible; provided, however, that the Deductible shall not apply to limit the indemnification obligations of the Sellers for breaches of the Fundamental Representations or the covenant of Sellers to indemnify the Buyer for Taxes under Section 10.1(b) (the "**Tax Indemnity**"), Income Tax Preparation Expenses under Section 12.1(d)(ii) or Transaction Expenses under Section 12.2 or to Fraud Claims.

(d) Cap. The aggregate liability of the Sellers pursuant to Sections 10.1(a)(i), 10.1(a)(ii)(A), and 10.1(a)(iii)(A) shall be limited to $5,000,000 (the "**Cap**"); provided, however, that with respect to Damages related to Selling Party Breaches of the Fundamental Representations, the Tax Indemnity or Fraud Claims, (i) the Cap shall not apply; and (ii) such Damages shall not be included in any calculation of the aggregate amount of Damages for purposes of determining whether or not the Cap has been exceeded. The aggregate liability of each Seller pursuant to this Section 10.1 or otherwise related to or arising from this Agreement or the Transaction (whether in contract, tort or otherwise) shall be limited to the proceeds received by the applicable Seller under this Agreement (the "**Fundamental Representation Cap**").

(e) Indemnification Net of Other Recoveries. The amount with respect to indemnification payable to an Indemnified Party under this Article X in respect of Damages shall be determined after taking into account any Tax Benefit actually realized by the Indemnified Party (or, if the Indemnified Party is a pass-through entity, its direct or indirect owners) by reason of the incurrence of the Damages or any recovery (whether by way of payment, discount, credit, off-set, counterclaim or otherwise) received from a third party (including any insurer) with respect to such Damages, less any cost (other than any Tax cost) associated with receiving such recovery in respect of such Damages.

(f) Recovery Under Insurance or Warranties.

(i) Recovery. To the extent that insurance, "pass-through" warranty coverage from a manufacturer or other form of recovery or reimbursement from a third party (including, without limitation, any representation or warranty made by a Person other than the Company and the Subsidiaries in connection with the Company's or a Subsidiary's acquisition of an asset or assumption of a liability and which is not unreasonably burdensome for a Buyer Indemnified Party to pursue) is available to any Buyer Indemnified Person to cover any item for which indemnification may be sought hereunder, the Buyer shall, or shall cause the Buyer Indemnified Person to, on a timely and expeditious basis, use commercially reasonable efforts to attempt to effect recovery under applicable insurance policies and warranties and otherwise pursue to conclusion available remedies or causes of action to recover the amount of its claim as may be available from such other party; provided the availability of a potential recovery against such a third party shall not affect the Buyer's right to make a claim pursuant to this Section 10.1.

(ii) Reduction in Recovery for Premium Increases. The amount that may be recovered hereunder by an Indemnified Party shall be reduced by an amount equal to any recovery referred to in clause (i) above that is actually received by the Indemnified Party (except to the extent of any repayment or increase in past, present or future insurance premiums or other similar repayment mechanisms payable following the date of the claim giving rise to such increase, determined on a present value basis).

(g) Assignment of Claim. To the extent a Buyer Indemnified Person is indemnified and paid the full amount of any claim referred to in Section 10.1(f) by the Sellers or from the Indemnity Escrow Amount, the Buyer shall assign, and the Buyer shall cause the Buyer Indemnified Person to assign, to the Seller or Sellers, to the fullest extent allowable its claim against such insurance, warranty coverage or third-party claim.

(h) No Contribution. The Sellers shall have no right of contribution or other recourse against the Company, the Blocker Corps or the Subsidiaries or their respective directors, officers, employees, agents, attorneys, representatives, assigns or successors for any Third Party Claims asserted by a Buyer Indemnified Person, it being acknowledged and agreed that the covenants and agreements of the Company and the Blocker Corp Sellers in this Agreement are solely for the benefit of the Buyer Indemnified Persons.

(i) Access to Records. The Seller Representative shall have the right, at mutually agreeable times during normal business hours, after reasonable notice to the Buyer and without undue disruption to their normal business activities, to inspect the

assets and properties of the Buyer and the Company and to inspect and make abstracts and reproductions of all books and records of the Buyer and the Company reasonably required with respect to any such claims. The Buyer shall, and shall cause the Company to furnish the Seller Representative with such information respecting the assets, business and financial records of the Buyer and the Company relating to any such claims as the Seller Representative may, from time to time, reasonably request and at the sole cost and expense of the Sellers.

10.2 Notice of Indemnification Claim .

(a) Notice Requirements . As used herein, the term " **Indemnification Claim** " means a claim for indemnification by the Buyer or any other Buyer Indemnified Person or any Company Indemnified Person, as the case may be, for Damages related to or arising out of this Agreement or the Transaction (such Person making an Indemnification Claim, an " **Indemnified Party** "). An Indemnified Party shall give notice of an Indemnification Claim under this Agreement, whether for its own Damages or for Damages incurred by any other Buyer Indemnified Person or Company Indemnified Person, as applicable, pursuant to written notice of such Indemnification Claim executed by an officer of the Buyer or the Seller, as applicable (a " **Notice of Claim** "), and delivered to the Seller or the Buyer, as applicable (such receiving party, the " **Indemnifying Party** "), promptly after such Indemnified Party becomes aware of the existence of any potential claim by such Indemnified Party for indemnification under this Article X , but in any event before the Expiration Date, arising out of or resulting from:

(i) Any item indemnified pursuant to the terms of Section 10.1 ; or

(ii) The assertion, whether orally or in writing, against any Indemnified Party of a Legal Proceeding, arbitration, investigation, inquiry or proceeding brought by a third party against any Indemnified Party that arises out of or results from any item indemnified pursuant to the terms of Section 10.1 (in each such case, a " **Third-Party Claim** ").

(b) Effect of Delay . So long as such Notice of Claim is given on or prior to the Expiration Date, no delay on the part of an Indemnified Party in giving the Indemnifying Party a Notice of Claim shall limit or reduce the Indemnified Party's right to indemnity hereunder, nor relieve the Indemnifying Party from any of its obligations under this Article X , unless (and then only to the extent that) the Indemnifying Party is prejudiced thereby.

10.3 Defense of Third-Party Claims .

(a) Right to Defend . The Indemnified Party shall give the Indemnifying Party prompt written notice of any Third-Party Claim, provided, that, so long as such notice is given on or prior to the Expiration Date, no delay on the part of an

Indemnified Party in giving the Indemnifying Party such notice shall limit or reduce the Indemnified Party's right to indemnity hereunder, nor relieve the Indemnifying Party from any of its obligations under this Article X, unless (and then only to the extent that) the Indemnifying Party is prejudiced thereby. Subject to the provisions hereof:

(i) Buyer's Right to Defend. The Buyer shall have the exclusive right to defend any Third-Party Claim to which the Deductible is applicable that the Buyer reasonably believes, in good faith, will not give rise to liability for Damages that, when taken together with all previously-claimed Damages arising out of Selling Party Breaches, exceed the Deductible, provided, that if the Damages arising out of such Third-Party Claim to which the Deductible is applicable defended by the Buyer exceed the Deductible, the Sellers shall have no liability with respect thereto (other than the applicable reduction in the amount of the Deductible); and

(ii) Sellers' Right to Defend. With respect to all other Third-Party Claims (including, for the avoidance of doubt, all claims arising out of breaches of the Fundamental Representations), the Indemnifying Party on behalf of the Indemnified Party shall have the exclusive right to elect to defend any Third-Party Claim utilizing legal counsel of its choice and the Indemnified Party may participate in the defense thereof (at its own expense, except to the extent specifically provided below); provided, however, that the Indemnified Party shall be entitled to participate in any such defense with separate counsel at the expense of the Indemnifying Party if: (i) so requested by the Indemnifying Party to participate; or (ii) in the reasonable opinion of counsel to the Indemnified Party, a conflict exists between the Indemnified Party and the Indemnifying Party that would make such separate representation advisable; and provided, further, that the Indemnifying Party shall not be required to pay for more than one such counsel for all Indemnified Parties in connection with any Third-Party Claim. Notwithstanding the foregoing, (i) the Indemnifying Party may only elect to defend a Third-Party Claim if the Indemnifying Party agrees to indemnify the Indemnified Party pursuant to the terms hereof for any Damages relating to such Third-Party Claim, subject to the terms of this Agreement, and (ii) the Buyer shall have the exclusive right to defend Third-Party Claims with respect to Taxes; provided that no Third-Party Claim with respect to Taxes may be settled or compromised without the consent of both the Indemnified and Indemnifying Party (which consent shall not be unreasonably withheld, delayed or conditioned).

(b) Access to Information. If the Indemnifying Party has the right to and does elect to defend any Third-Party Claim, the Indemnifying Party shall: (i) conduct the defense of such Third-Party Claim actively and diligently and keep the Indemnified Party fully informed of material developments in the Third-Party Claim at all stages thereof; (ii) promptly submit to the Indemnified Party copies of all pleadings, responsive

pleadings, motions and other similar legal documents and papers received or filed in connection therewith; (iii) permit the Indemnified Party and its counsel to confer on the conduct of the defense thereof; and (iv) permit the Indemnified Party and its counsel an opportunity to review all legal papers to be submitted prior to their submission. The Buyer shall make available to the Seller and its counsel and accountants, without charge, all of its or their books and records reasonably required in the defense of the Third-Party Claim, and each party shall render to the other party such assistance as may be reasonably required in order to ensure the proper and adequate defense thereof and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the other party in connection therewith.

(c) Settlement Rights. If the Indemnifying Party has the right to and does elect to defend any Third-Party Claim, the Indemnifying Party shall have the right to enter into any settlement of a Third-Party Claim without the prior consent of the Indemnified Party if: (i) the amount of such settlement will be satisfied solely by the Indemnifying Party (provided, for the avoidance of doubt, that no such amounts may be offset against the Deductible); (ii) such settlement does not involve any injunctive or other equitable relief binding upon the Buyer, the Company or any of its Affiliates; and (iii) such settlement expressly and unconditionally releases the Indemnified Party from all Liabilities and obligations with respect to such claim, without prejudice. The prior written consent of the Indemnified Party (not to be unreasonably withheld) shall be required for any other settlement. If a settlement offer solely for money damages is made by the applicable third-party claimant, and the Indemnifying Party notifies the Indemnified Party in writing of the Indemnifying Party's willingness to accept the settlement offer and, subject to the applicable limitations of Sections 10.1(c) - (f), pay the amount called for by such offer, and the Indemnified Party declines to accept such offer, the Indemnified Party may continue to contest such Third-Party Claim, free of any participation by the Indemnifying Party, and the amount of any ultimate liability with respect to such Third-Party Claim that the Indemnifying Party has an obligation to pay hereunder shall be limited to the lesser of: (A) the amount of the settlement offer that the Indemnified Party declined to accept plus the Damages of the Indemnified Party relating to such Third-Party Claim through the date of its rejection of the settlement offer; or (B) the aggregate Damages of the Indemnified Party with respect to such Third-Party Claim.

10.4 Contents of Notice of Claim. Each Notice of Claim by an Indemnified Party given pursuant to Section 10.2 shall contain the following information, provided, that failure to include all information set forth in (a) through (c) below shall not render a Notice of Claim invalid unless such failure materially prejudices the Indemnifying Party (and only to the extent thereof):

(a) Damages: that the Indemnified Party has incurred or paid or, in good faith, believes it shall have to incur or pay, Damages in an aggregate stated amount

(where practicable) arising from such Indemnification Claim (which amount may be the amount of damages claimed by a third party in an action brought against any Indemnified Party based on alleged facts, which if true, would give rise to liability for Damages to such Indemnified Party under this Article X);

(b) Description : a brief description, in reasonable detail (to the extent reasonably available to Indemnified Party), of the facts, circumstances or events giving rise to the alleged Damages based on Indemnified Party's good faith belief thereof, including the identity and address of any third-party claimant (to the extent reasonably available to Indemnified Party) and the specific nature of the breach to which such claim is related; and

(c) Documents : copies of any demand or complaint (if any).

10.5 Indemnification by the Buyer .

(a) Scope . The Buyer agrees that, after the Closing Date, the Buyer shall indemnify, defend and hold harmless the Sellers and their Affiliates, officers, directors, members, agents, representatives, successors and assigns (the " **Company Indemnified Persons** "), from and against any and all Damages based upon, attributable to or resulting, directly or indirectly, from (i) the failure of any of the representations or warranties made by the Buyer in Article VII hereof or in any of the certificates or other instruments or documents furnished by the Buyer pursuant to this Agreement to be true and correct in all respects at and as of the date hereof and the Closing Date; or (ii) the breach of any covenant contained herein that, by its terms, relate to conduct prior to the Closing Date on the part of the Buyer; provided that this Section 10.5 shall not affect in any manner the remedies of the Sellers pursuant to Section 12.12 hereunder.

(b) Limitations .

(i) Deductible . The indemnification provided for in this Section 10.5 shall not apply and the Buyer shall not have any obligations or liability related to or arising from this Agreement or the Transaction (other than pursuant to Article III hereof) (whether in contract, tort or otherwise) unless and until the aggregate Damages exceed the Deductible, in which event the Company Indemnified Persons shall, subject to the other limitations herein, be indemnified for only such Damages in excess of the Deductible; provided , however , that the Deductible shall not apply to Fraud Claims or breaches of the representations and warranties of Section 7.1 , Section 7.2 or Section 7.5 .

(ii) Cap . The liability of the Buyer pursuant to this Section 10.5 shall be limited to the Cap; provided , however , that with respect to Damages related to Fraud Claims or breaches of the representations and warranties of Section 7.1 , Section 7.2 or Section 7.5 , (i) the Cap shall not apply; and (ii) such Damages shall

not be included in any calculation of the aggregate amount of Damages for purposes of determining whether or not the Cap has been exceeded.

10.6 Survival of Covenants, Representations and Warranties.

(a) Representations and Warranties of the Company, the Blocker Corps and the Sellers.

(i) Non-Fundamental Representations. All representations and warranties related to the Company in Article IV, the Blocker Corps in Article V and the Sellers in Article VI (in each case, as modified by the Disclosure Schedule), other than Fundamental Representations, shall remain operative and in full force and effect only until the 12 month anniversary of the Closing Date, provided, that any obligations under Section 10.1 shall not terminate with respect to any Damages as to which the Buyer Indemnified Person to be indemnified shall have given a Notice of Claim to the Seller in accordance with the terms of this Agreement prior to the Expiration Date.

(ii) Fundamental Representations. All Fundamental Representations (in each case, as modified by the Disclosure Schedule) shall remain operative and in full force and effect only until 60 days following the expiration of the applicable statute of limitations for claims against the Company or the Subsidiaries in respect of the subject matter of such representations. For avoidance of doubt, each representation under Section 4.09 and Section 5.07 shall remain operative and in full force and effect until 60 days after the expiration of the statute of limitations for assessment of Taxes for each taxable period as to which such representation is relevant in determining Tax liability of any Buyer Indemnified Person, but subject to the limitations imposed by Section 4.9(i) and Section 5.7 (j).

(b) Representations and Warranties of the Buyer. All representations and warranties related to the Buyer contained in this Agreement and the other agreements, certificates and documents contemplated hereby shall remain operative and in full force and effect, until the Closing Date.

(c) Covenants. All covenants of the parties shall survive according to their respective terms, except that the Tax Indemnity shall only continue until the expiration of the applicable statute of limitations for the relevant Pre-Closing Taxes plus 60 days have expired; provided that the Tax Indemnity shall continue indefinitely with respect to any claim notice of which has been given by a Buyer Indemnified Party before the expiration of such period.

10.7 Escrow.

(a) Deposit of Indemnity Escrow Amount. On the Closing Date, the Buyer shall, on behalf of the Seller, pay to Branch Banking and Trust Company, as agent to the Buyer and the Seller (the " **Escrow Agent** "), in immediately available funds, to the account designated by the Indemnity Escrow Agent, an amount equal to $5,000,000 (the " **Indemnity Escrow Amount** "), in accordance with the terms of this Agreement and the Escrow Agreement.

(b) Escrow as Sole Remedy for Company Breaches. Any payment any Seller is obligated to make to the Buyer or to any Buyer Indemnified Person hereunder with respect to Sections 10.1(a)(i), (except with respect to breaches of Fundamental Representations and Fraud Claims) shall be paid subject to the restrictions set forth in this Article X solely by release of funds to the Company or, if applicable, any other of the Buyer Indemnified Persons, from any available Pro-rata Portion of the Indemnity Escrow Amount of such Seller by the Escrow Agent.

(c) Remedies for Blocker Corp Breaches and Individual Seller Breaches. Any payment any Seller is obligated to make to the Buyer or to any Buyer Indemnified Person hereunder with respect to a Blocker Corp Breach or an Individual Seller Breach (other than with respect to breaches of Fundamental Representations, the Tax Indemnity and Fraud Claims) shall first be paid by release of funds to the Company, or if applicable, any other of the Buyer Indemnified Persons, from the Pro-rata Portion of the Indemnity Escrow Amount of such Seller by the Escrow Agent. Damages in excess of such portion of the Indemnity Escrow Amount shall be paid promptly by such Seller as a personal obligation of such Seller, subject to the restrictions set forth in this Article X.

(d) Remedies for Breaches of Fundamental Representations, Tax Indemnity and Fraud Claims. Any payment the Sellers are obligated to make to the Buyer or to any Buyer Indemnified Person hereunder with respect to breaches of Fundamental Representations, the Tax Indemnity and Fraud Claims shall be paid promptly: (i) by each Seller as a personal obligation of such Seller; (ii) severally and not jointly with any other Seller; and (iii) up to each Seller's Pro-rata Portion of applicable Damages and subject to the restrictions set forth in this Article X.

(e) Payment from Indemnity Escrow Amount. To the extent there are sufficient funds in the Indemnity Escrow Amount, such sums shall be paid within 5 Business Days after the date notice of such sums due and owing is given to the Sellers (with a copy to the Escrow Agent pursuant to the Escrow Agreement) by the Buyer or the Buyer Indemnified Person, as applicable, and shall accordingly reduce the Indemnity Escrow Amount.

(f) Release of Escrow. On the 12 month anniversary of the date hereof, pursuant to the terms of the Escrow Agreement, the Escrow Agent shall release the Indemnity Escrow Amount (to the extent not utilized to pay the Buyer or any Buyer

Indemnified Person for any indemnification claim) to the Seller, except that the Escrow Agent shall retain an amount (up to the total amount then held by the Escrow Agent) equal to the amount of claims for indemnification under this Article X asserted prior to such date but not yet resolved. Any Indemnity Escrow Amount retained for such unresolved claims shall be released by the Escrow Agent (to the extent not utilized to pay the Buyer or any Buyer Indemnified Person for any such claims) upon their resolution in accordance with this Article X and the terms of the Escrow Agreement.

(g) Sole and Exclusive Remedy. EXCEPT FOR FRAUD CLAIMS, THE SOLE RECOURSE AND EXCLUSIVE REMEDY OF THE BUYER AND BUYER INDEMNIFIED PERSONS FOR ANY LOSSES, CLAIMS, CAUSES OF ACTION, ACTIONS, AND LIABILITIES ARISING FROM, OUT OF, OR RELATING TO THIS AGREEMENT OR ANY COMPANY DOCUMENT, BLOCKER CORP DOCUMENT OR SELLER DOCUMENT, OR TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, WHETHER ARISING UNDER THIS AGREEMENT OR SUCH DOCUMENTS OR UNDER ANY OTHER LEGAL OR EQUITABLE THEORY WHATSOEVER, SHALL BE A CLAIM FOR INDEMNIFICATION IN THE MANNER SET FORTH HEREIN. NOTWITHSTANDING THE FOREGOING, FRAUD CLAIMS SHALL BE CAPPED AT THE FUNDAMENTAL REPRESENTATIONS CAP.

(h) Bargained for Provisions. The provisions of Article IX were specifically bargained for and reflected in the amounts payable to the Sellers in connection with the Closing pursuant to Article II.

10.8 Exclusion of Damages. Notwithstanding anything to the contrary elsewhere in this Agreement, no party shall, in any event, be liable to any other Person on account of any indemnity obligation set forth in Sections 10.1 or 10.5 for any special, consequential or punitive damages, in each case, unless such Damages are paid pursuant to a Third-Party Claim.

10.9 Tax Treatment of Indemnity Payments. The Sellers and the Buyer agree to treat any indemnity payment made pursuant to this Article X as an adjustment to the Purchase Price for federal, state, local and foreign income Tax purposes to the extent permitted by Law, and to allocate that payment in accordance with Section 3.5.

ARTICLE XI

TERMINATION

11.1 Termination of Agreement. This Agreement may be terminated prior to the Closing as follows:

(a) Termination Date. At the election of the Seller Representative or the Buyer on or after that date which is 60 days after the date hereof (the "**Termination Date**") if the Closing shall not have occurred by the close of business on such date; provided that:

(i) No Breach: the terminating party is not in any breach of any of its obligations hereunder which has caused the Closing not to occur by the Termination Date;

(ii) Satisfaction of Closing Conditions: if all of the conditions set forth in Section 9.1 have been satisfied as of the Termination Date (other than those conditions that by their nature are to be satisfied by actions taken at the Closing), then no party shall be permitted to terminate the Agreement pursuant to this Section 11.1(a); and

(b) Mutual Written Consent. By mutual written consent of the Seller Representative and the Buyer; or

(c) Material Breach. By either the Seller Representative or the Buyer if there shall have been a breach by another party of any of its representations, warranties, covenants or obligations contained in this Agreement, which breach would result in the failure to satisfy one or more of the conditions set forth in Section 9.1(a) (in the case of a breach by the Company, the Blocker Corps or the Sellers), or Section 9.2(a) (in the case of a breach by the Buyer), and in any such case such breach shall be incapable of being cured or, if capable of being cured, shall not have been cured prior to the Termination Date, provided, that the terminating party may not be in breach in any material respect of any of its obligations hereunder.

11.2 Procedure upon Termination. In the event of termination and abandonment by the Buyer or the Seller Representative pursuant to Section 11.1 hereof, written notice thereof shall forthwith be given to the other party or parties, and this Agreement shall terminate, and the Transaction shall be abandoned, without further action by the Buyer, the Sellers, the Company or the Blocker Corps.

11.3 Effect of Termination.

(a) Relief of Duties and Obligations. In the event that this Agreement is validly terminated in accordance with Section 11.1 and Section 11.2, then the parties hereto shall be relieved of their duties and obligations arising under this Agreement after the date of such termination and such termination shall be without liability to the Buyer, the Company, the Blocker Corps or the Sellers; provided, that the obligations of the parties set forth in Articles X, XI and XII hereof shall survive any such termination and shall be enforceable hereunder.

(b) Liability for Breaches Prior to Termination. Nothing in this Section 11.3 shall relieve the parties hereto of any liability for a breach of any of its covenants, agreements, representations or warranties contained in this Agreement prior to the date of termination, which shall be determined pursuant to Article X. The damages recoverable by the non-breaching party shall include all attorneys' fees reasonably incurred by such party in connection with the Transaction.

(c) Survival of Confidentiality Agreement. The Confidentiality Agreement shall survive any termination of this Agreement and nothing in this Section 11.3 shall relieve the parties hereto of their obligations under the Confidentiality Agreement.

ARTICLE XII

MISCELLANEOUS

12.1 Tax Matters.

(a) Payment of Sales, Use or Similar Taxes. All sales, use, transfer, intangible, recordation, documentary stamp or similar Taxes or charges incurred by the Buyer, of any nature whatsoever, applicable to, or resulting from, the Transaction shall be borne by the Buyer.

(b) Cooperation. The Seller, the Company, the Blocker Corps and the Buyer shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents and auditors reasonably to cooperate, in: (i) preparing and filing all Tax Returns of the Company, the Subsidiaries and the Blocker Corps, including maintaining and making available to each other all records necessary in connection with Taxes; (ii) resolving all disputes and audits with respect to all taxable periods relating to Taxes; and (iii) providing timely notice to each other in writing of any pending or threatened Tax audits or assessments for all taxable periods for which the other may have a liability under this Agreement.

(c) Technical Termination; Deduction of Transaction Expenses. The parties hereto acknowledge that for United States federal income Tax purposes, the Transaction is expected to be treated as a termination of the Company pursuant to Section 708(b)(1)(B) of the Code on the Closing Date. The parties agree that the Transaction Expenses, to the extent determined to be more likely than not (by the preparer of the Company's federal income Tax Return for the short taxable year ending on and including the Closing Date) to be deductible for United States federal income Tax purposes for its short taxable year ending on and including the Closing Date, shall be claimed as deductions in the Company's federal income Tax Return for its short taxable year ending on and including the Closing Date. None of the parties shall take any tax position

inconsistent with the foregoing.

(d) Preparation of Tax Returns .

(i) The Seller Representative shall properly and accurately prepare (or cause to be prepared), and the Company and any of the Subsidiaries, the Blocker Corps and Blocker LPs, and the Buyer shall cooperate with the Seller Representative in the preparation and filing, and timely filing (to the extent not delinquent as of the date of preparation by the Seller Representative) of, all income Tax Returns required to be filed by or on behalf of any Blocker Corp or Blocker LP after the Closing Date for taxable periods ending on or before the Closing Date (each a " **Seller Prepared Return** "). The cost of preparation of Seller Prepared Returns shall be paid by the Sellers. Each Seller Prepared Return shall be prepared in a manner consistent with the prior practice of the Blocker Corps or Blocker LP since June 30, 2011, unless otherwise required by applicable Tax Law, and shall properly include and reflect the income, activities, operations and transactions of the Blocker Corp or Blocker LP through the Closing Date. No later than fifteen (15) days before the required filing date for each such Seller Prepared Return, the Seller Representative shall deliver to the Buyer a draft of such Tax Return and the Buyer shall have the right to review and approve each such Tax Return before filing, which approval shall not be unreasonably withheld, conditioned, or delayed.

(ii) Except for the Seller Prepared Returns, the Buyer shall prepare (or cause to be prepared) and file (or cause to be filed) each Tax Return required to be filed by the Company, the Subsidiaries, the Blocker Corps and the Blocker LPs after the Closing Date for a taxable period beginning before the Closing Date (each a " **Buyer Prepared Return** "); provided that the Sellers, severally and not jointly, based on each such Seller's Pro-rata Portion of such amount, upon the Buyer's written request, shall reimburse the Buyer for all Income Tax Preparation Expenses. To the extent any Tax shown as due on such Tax Return is payable by any Seller (taking into account indemnification obligations hereunder), (x) such Tax Return shall be prepared in a manner consistent with the prior practice of the Company, and such Subsidiary, Blocker Corp or Blocker LP unless otherwise required by applicable Tax Law or the change from prior practice would not increase the amount of Tax payable by the Company, any Subsidiary, any Blocker Corp or Blocker LP for which any Seller is obligated to indemnify the Buyer pursuant to Section 10.1(b) ; (y) such Tax Return shall be provided to the Seller Representative at least fifteen (15) days before the due date for filing such return (or, if required to be filed within thirty (30) days after the Closing or within thirty (30) days after the end of the taxable period to which such Tax Return relates, as soon as reasonably practicable following the Closing); and (z) the Seller Representative shall have the right to review and approve such Tax

Return before filing, which approval shall not be unreasonably withheld, conditioned, or delayed. The Buyer shall make such revisions to such Tax Returns as are reasonably requested by the Seller Representative and agreed to by the Buyer (which agreement shall not be unreasonably withheld, conditioned or delayed).

(iii) Other than any dispute regarding the matters covered by Section 4.9(h) (the reporting of which are subject to Section 12.1(d)(vi) below), if any dispute with respect to a Tax Return is not resolved before the due date for filing such Tax Return, such Tax Return shall be filed in the manner specified by the party that was responsible for initially preparing such Tax Return under this Section 12.1(d), provided that, in the case of Seller Prepared Return, the filing of such Tax Return will not require an accrual under GAAP or disclosure on IRS Schedule UTP of a liability or reserve for any Pre-Closing Taxes (other than Taxes shown as due on such Tax Return), without prejudice to the rights of the parties to continue such dispute.

(iv) Not less than two (2) Business Days before the required payment date of the Taxes for the taxable period covered by any Seller Prepared Return and Buyer Prepared Return, if the Seller Representative agrees with the Buyer with respect to the amount of such payment, the Sellers shall, subject to Section 10.7 and the limitations of Article X (and without duplication of any amount otherwise paid pursuant to Article X, and taking into account (that is, reducing the amount owed by the Sellers) any prior payments against Tax liability shown as due on such Tax Return), pay to the Buyer in immediately available funds to an account designated by the Buyer an amount equal to the amount of such Taxes required to be shown as due on each such Tax Return (or reasonably estimated by Buyer to be due if such payment is due before the filing of such Tax Return) and for which any Seller is responsible pursuant to Section 10.1. The delivery of each Seller Prepared Return to Buyer, and Buyer Prepared Return to the Seller, shall be deemed to constitute a notification by Buyer of a claim for indemnity against the Sellers for purposes of Section 10.2 in respect of the Taxes shown on such Tax Return that are subject to indemnification under Section 10.1.

(v) The Sellers shall be entitled to any refund of Pre-Closing Taxes of the Company, its Subsidiaries or any Blocker Corp, received by the Buyer or its Affiliates (including any overpayment that is credited against Taxes of the Buyer or its Affiliates otherwise due and payable that are not Pre-Closing Taxes of the Company, its Subsidiaries or a Blocker Corp); provided that no payment shall be required under this Section 12.1(d)(v) to the extent that the overpayment of Pre-Closing Taxes so refunded or credited (i) is attributable to a carryback of losses, credits and similar attributes of the Company, a Subsidiary or a Blocker Corp from a taxable period ending after the Closing Date or (ii) the entitlement to

such refund is reflected as a Current Asset in Closing Working Capital. Any payments otherwise required to be made under this Section 12.1(d)(v) shall be reduced by the amount any Tax payable by the Buyer or its Affiliates with respect to the receipt of crediting of such Tax overpayment or interest thereon, and all costs reasonably incurred by the Buyer or its Affiliates in securing the refund or credit of such overpayment. After receipt or crediting of such overpayment, the Buyer shall cause the Company, its Subsidiaries or the Blocker Corps to promptly remit such refunds to the Escrow Agent, if such is paid before the Escrow Amount is released pursuant to the Escrow Agreement, and otherwise to the Seller Representative.

(vi) The parties agree that Buyer shall be entitled to rely on the continuing accuracy of the representation set forth at Section 4.9(h) for so long as the subject matter of such representation is material to the Tax liability of any Buyer Indemnified Party, provided such reliance shall be expressly conditioned on the Buyer's preparing (or causing to be prepared) all relevant Tax Returns of Buyer and its Affiliates in a manner that does not reflect a position that Section 197(f)(9) of the Code prohibits amortization of any basis arising from consummation of the transactions effected in connection with the 2011 Agreement unless the Buyer is otherwise required pursuant to a final determination within the meaning of Section 1313 of the Code or otherwise pursuant to a judicial determination. In the event that Buyer or any of its Affiliates is at any time required to establish a reserve in its financial statements for any Tax liabilities that may result from failure to sustain such reporting position, the Seller Representative shall expeditiously take such actions and commence such proceedings as are reasonably requested by the Buyer to obtain such a final determination or judicial determination regarding the applicability of section 197(f)(9) to the transactions effected in connection with the 2011 Agreement. The Seller Representative (at its cost) shall be entitled to control the conduct of such proceedings through legal counsel of its choice, and Buyer (at its cost) shall be entitled to participate in such proceedings through its own counsel. If the Seller Representative declines to control the conduct of such proceedings, the Buyer shall be entitled to conduct such proceedings through legal counsel of its choice and, in such case, the Sellers, severally and not jointly, based on each such Seller's Pro-rata Portion of such amount, shall indemnify Buyer for all reasonable costs incurred in seeking such a determination. No action reasonably taken by Buyer to obtain such a determination under the foregoing circumstances (whether such proceeding is conducted by the Buyer or the Seller Representative) shall impair Buyer's right to rely on the representation set forth in Section 4.9(h) . Until a final determination is made in any such proceeding, the amount of Taxes required to be reserved in the financial statements of Buyer or its Affiliates shall not constitute a Damage required to be indemnified by Sellers under this Agreement except to the extent such Tax has been assessed against and has been

paid by a Buyer Indemnified Party. After payment by the Sellers to any Buyer Indemnified Person of Damages consisting of Taxes incurred by a Buyer Indemnified Person by reason of a reduction in amortization deductions resulting from circumstances constituting a breach of Section 4.9(h), such amount paid as Damages by Sellers shall be promptly remitted, as if it were a refund or credit subject to Section 12.1(d)(v), to the Escrow Agent or the Seller Representative to the extent that such determination has resulted in an abatement of the Taxes to which the Damages previously paid by Sellers related, provided that the amount of such abated Taxes shall not be so remitted until the earlier of actual receipt of a refund or benefit of such overpaid Taxes by any Buyer Indemnified Person due to such determination (including any overpayment that is credited against Taxes of the Buyer or its Affiliates otherwise due and payable in respect of which no indemnity is payable to a Buyer Indemnified Person under this Agreement).

12.2 Expenses. Except as otherwise provided herein, each party to this Agreement shall bear its respective fees, costs and expenses incurred in connection with the preparation, negotiation, execution and performance of this Agreement or the Transaction (including legal, accounting and other professional fees). Without limiting the foregoing, (a) the Buyer shall pay and be solely responsible for all filing fees payable under the HSR Act and (b) the Sellers, severally and not jointly, based on each such Seller's Pro-rata Portion of such amount, shall reimburse the Company upon written request for any Transaction Expenses to the extent such expenses have not previously been included in the calculation of the Purchase Price on the Closing Date or Final Working Capital; *provided* that the foregoing clause (b) shall only apply to any such Transaction Expenses that the Company or the Buyer have provided written notice to the Seller Representative within twelve (12) months after the Closing Date, which notice shall include the amount of and the payee for such Transaction Expenses and other documentation related thereto reasonably requested by the Seller Representative.

12.3 Submission to Jurisdiction; Consent to Service of Process; Waiver of Jury.

(a) Jurisdiction and Venue. The parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of any federal or state court located within the State of Delaware over any dispute arising out of or relating to this Agreement or any of the Transaction and each party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action proceeding related thereto may be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Service of Process. Each of the parties hereto hereby consents to process being served by any party to this Agreement in any suit, action or proceeding by the delivery of a copy thereof in accordance with the provisions of Section 12.7.

(c) Waiver of Jury Trial. Each of the parties hereto hereby waives to the fullest extent permitted by applicable law any right it may have to a trial by jury with respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement or the Transaction. Each of the parties hereto hereby (i) certifies that no representative, agent or attorney of the other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it has been induced to enter into this agreement and the Transaction, as applicable, by, among other things, the mutual waivers and certifications in this Section 12.3(c).

12.4 Entire Agreement. This Agreement (including the schedules and exhibits hereto), the Transaction Documents, the Confidentiality Agreement, and each other agreement, document, instrument or certificate contemplated hereby or to be executed in connection with the Transaction, represent the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and thereof, and supersede all prior agreements among the parties respecting the Transaction. The parties hereto have voluntarily agreed to define their rights, liabilities and obligations respecting the Transaction exclusively in contract pursuant to the express terms and provisions of this Agreement and the Transaction Documents, and the parties hereto expressly disclaim that they are owed any duties or are entitled to any remedies not expressly set forth in this Agreement or the Transaction Documents.

12.5 Amendments and Waivers. This Agreement can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the party against whom enforcement of any such amendment, supplement, modification or waiver is sought. No action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

12.6 Governing Law. All matters relating to the interpretation,

construction, validity and enforcement of this Agreement, including all claims (whether in contract or tort) that may be based upon, arise out of or relate to this Agreement or the negotiation, execution or performance of this Agreement or the Transaction (including any claim or cause or action cased upon, arising out of, or related to any representation or warranty made in or in connection with this Agreement or as an inducement to enter into this Agreement), shall be governed by and construed in accordance with the domestic laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any jurisdiction other than the State of Delaware.

12.7 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given: (i) when delivered personally by hand (with written confirmation of receipt); (ii) when sent by facsimile (with written confirmation of transmission); (iii) when received or rejected by the addressee if sent by registered or certified mail, postage prepaid, return receipt requested; or (iv) one Business Day following the day sent by overnight courier (with written confirmation of receipt), in each case at the following addresses and facsimile numbers (or to such other address or facsimile number as a party may have specified by notice given to the other party pursuant to this provision):

If to the Seller Representative to:

Summit Partners Private Equity Fund VII-A, L.P.
c/o Summit Partners, L.P.
222 Berkeley Street, 18th Floor
Boston, Massachusetts 02116
Attention: John R. Carroll
Telephone: (617) 824-1000
Facsimile: (617) 824-1100

With a copy to:

Proskauer Rose LLP
One International Place
Boston, Massachusetts 02110-2600
Facsimile: (617) 526-9899
Attention: Steven M. Peck

If to the Buyer, to:

Veeco Instruments Inc.
Terminal Drive
Plainview, New York 11803
Attention: General Counsel
Telephone: (516) 677-0200
Facsimile: (516) 714-1200

With a copy to:

Morrison & Foerster LLP
1650 Tysons Blvd., Suite 400
McLean, Virginia 22102
Facsimile: (703) 760-7777
Attention: Thomas J. Knox

12.8 Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any law or public policy, all other terms or provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transaction is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the Transaction is consummated as originally contemplated to the greatest extent possible.

12.9 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as expressly provided herein, this Agreement is for the sole benefit of the parties and their permitted successors and assigns and nothing herein expressed or implied shall give or be construed to give any Person, other than the parties and such permitted successors and assigns, any legal or equitable rights hereunder; provided, however, that the parties hereto specifically acknowledge and agree that the provisions of Section 8.7 hereof are intended to be for the benefit of, and shall be enforceable by, all current or former directors, managers, officers, employees or shareholders of the Company or the Subsidiaries (in all of their capacities) affected thereby. No assignment of this Agreement or of any rights or obligations hereunder may be made by any party hereto, directly or indirectly (by operation of law or otherwise), without the prior written consent of the Seller Representative or the Buyer, as the case may be, and any attempted assignment without the required consent shall be void. No assignment of any obligations hereunder shall relieve the parties hereto of any such obligations.

12.10 No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Person. The parties hereto each hereby acknowledge that this Agreement embodies the justifiable expectations of sophisticated parties derived from arm's length negotiations; all parties to this Agreement specifically acknowledge that no party has any special relationship with another party that would justify any expectation beyond that of an ordinary purchaser and an ordinary seller in an arm's length transaction.

12.11 Non-Recourse. Except as permitted by applicable Law, (i) all claims, obligations, liabilities or cause of action (whether in contract or in tort, in law or in equity, or granted by statute) that may be based upon, in respect of, arise under, out or by reason of, be connected with, or relate in any manner to this Agreement, or the negotiation, execution or performance of this Agreement (including any representation or warranty made in, in connection with, or as an inducement to, this Agreement) may be made only against (and are those solely of) the entities that are expressly identified as parties to this Agreement in the Preamble to this Agreement; and (ii) no Person who is not identified as a Party to this Agreement in the Preamble hereto shall have any liabilities (whether in contract or in tort, in law or in equity, or granted by statute) for any claims, causes of action, obligations or liabilities arising under, out of, in connection with or related in any manner to this Agreement or based on, in respect of or by reason of this Agreement or its negotiation, execution, performance or breach.

12.12 Specific Enforcement.

(a) Entitlement to Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, and that money damages or legal remedies would not be an adequate remedy for any such damages. Therefore, it is accordingly agreed that prior to the termination of this Agreement in accordance with Section 11.1, the parties shall be entitled to an injunction or injunctions to prevent or restrain any breach or threatened breach of this Agreement by any other party and to enforce specifically the terms and provisions of this Agreement to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of any other party, in any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. If any party brings any action to enforce specifically the performance of the terms and provisions hereof by any other party, the party bringing such action may extend the Termination Date (notwithstanding the termination provisions of Section 11.1(a)) so long as the party bringing such action: (i) is actively seeking a court order for an injunction or injunctions or to specifically enforce the terms and provisions of this Agreement; and (ii) is not, as of the applicable Termination Date, in breach of any of its obligations hereunder which would give rise to the failure of a condition to closing set forth in Article IX.

(b) Waiver of Defenses and Bond. Each of the parties hereto hereby waives: (i) any defenses in any action for specific performance, including the defense that a remedy at Law would be adequate; and (ii) any requirement under any Law to post a bond or other security as a prerequisite to obtaining equitable relief.

(c) Specific Performance Declined. If a court of competent jurisdiction has declined to specifically enforce the obligations of any party hereto to consummate the Closing pursuant to a claim for performance brought against such parties pursuant to this Section 12.11, the other parties shall not be limited in any respect in pursuing any other remedy or recourse available to it under applicable Law.

12.13 Seller Representative.

(a) Appointment of Seller Representative. The Sellers hereby irrevocably appoint Summit Partners Private Equity Fund VII-A, L.P. as the sole representative of the Sellers (the "**Seller Representative**") to act as the agent and on behalf of such Sellers regarding any matter under this Agreement, including for the purposes of: (i) making decisions and entering into settlements with respect to the determination of the Closing Working Capital and related matters; (ii) determining whether the conditions to closing in Article IX have been satisfied and supervising the Closing, including waiving any condition, as determined by the Seller Representative, in its sole discretion; (iii) taking any action that may be necessary or desirable, as determined by the Seller Representative, in its sole discretion, in connection with the termination of this Agreement in accordance with Article XI; (iv) accepting notices on behalf of the Sellers in accordance with Section 12.7 of this Agreement or any Ancillary Agreement; (v) executing and delivering, on behalf of the Sellers, any and all notices, documents or certificates to be executed by the Sellers, in connection with this Agreement, any Ancillary Agreements and the Transaction; (vi) making any payments or paying any expenses under or in connection with this Agreement or any Ancillary Agreement; (vii) granting any consent or approval on behalf of the Sellers under this Agreement or any Ancillary Agreement; and (x) resolving or acting with respect to claims for indemnity hereunder.

(b) Indemnification of Seller Representative. None of the Seller Representative nor any of its respective officers, directors, employees, agents, attorneys in fact or Affiliates shall be: (i) liable to any other Seller or its Affiliates for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement (except to the extent that any of the foregoing are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's intentional willful misconduct). The Seller Representative shall not be under any obligation to the other Sellers or their Affiliates to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Company or the

subsidiaries.

12.14 Conflicts; Privileges.

(a) Acknowledgement of Representation. It is acknowledged by each of the parties hereto that the Company, the Blocker Corps and the Sellers have retained Proskauer Rose LLP ("**Proskauer**") to act as their counsel in connection with the transactions contemplated hereby and that Proskauer has not acted as counsel for any other Person in connection with the transactions contemplated hereby and that no other party to this Agreement or Person has the status of a client of Proskauer for conflict of interest or any other purposes as a result thereof.

(b) Affirmation of Representation. The Buyer hereby agrees that, in the event that a dispute arises between the Buyer or any of its Affiliates (including, after the Closing, the Company, the Blocker Corps or any of the Subsidiaries) and any Seller or any of its Affiliates (including, prior to the Closing, the Company, the Blocker Corps or any of the Subsidiaries), Proskauer may represent such Sellers or any such Affiliates in such dispute even though the interests of such Seller or such Affiliate may be directly adverse to the Buyer or any of its Affiliates (including, after the Closing, the Company, the Blocker Corps or any of the Subsidiaries), and even though Proskauer may have represented the Company, a Blocker Corp or a Subsidiary in a matter substantially related to such dispute, or may be handling ongoing matters for the Buyer, the Company, a Blocker Corp or a Subsidiary.

(c) Waiver of Conflict. The Buyer and the Company hereby waive, on behalf of themselves and each of their Affiliates: (i) any claim they have or may have that Proskauer has a conflict of interest in connection with or is otherwise prohibited from engaging in such representation; (ii) agree that, in the event that a dispute arises after the Closing between the Buyer or any of its Affiliates (including the Company or any Subsidiary) and the Seller or any Affiliate thereof, Proskauer may represent any such party in such dispute even though the interest of any such party may be directly adverse to the Buyer or any of its Affiliates (including the Company or any Subsidiary) and even though Proskauer may have represented the Company or the Subsidiaries in a matter substantially related to such dispute, or may be handling ongoing matters for the Buyer, the Company or the Subsidiaries.

(d) Retention of Privilege. The Buyer, the Sellers, the Company, the Blocker Corps and the Subsidiaries further agree that, as to all communications among Proskauer, the Sellers, the Blocker Corps, the Company and the Subsidiaries that relate in any way to the transactions contemplated by this Agreement, the attorney-client privilege, the expectation of client confidence and all other rights to any evidentiary privilege belong to the Sellers and may be controlled by the Seller Representative and shall not pass to or be claimed by the Buyer, the Blocker Corps, the Company or any Subsidiaries.

(e) Further Assurances. The Buyer, the Sellers and the Company agree to take, and to cause their respective Affiliates to take, all steps necessary to implement the intent of this Section 12.14. The Buyer, the Sellers and the Company further agree that Proskauer and its partners and employees are third party beneficiaries of this Section 12.14.

12.15 Absence of Third Party Beneficiary Rights. Except as expressly set forth in Section 8.7, Article X and Section 12.14, no provision of this Agreement is intended, nor will be interpreted, to provide or create any third party beneficiary rights or any other rights of any kind in any client, customer, Affiliate, security holder, employee or partner of any party hereto or any other Person.

12.16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Agreement and all of which, when taken together, shall be deemed to constitute one and the same agreement.

**** REMAINDER OF PAGE INTENTIONALLY LEFT BLANK ****

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective authorized officers, as of the date first written above.

COMPANY :

SOLID STATE EQUIPMENT HOLDINGS LLC

By: /s/

Name: Herman Itzkowitz

Title: Chief Executive Officer

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

BUYER :

VEECO INSTRUMENTS INC.

By: /s/
Name: [authorized signatory]
Title:

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SUMMIT SELLERS :

SUMMIT PARTNERS PRIVATE EQUITY FUND VII-A, L.P.

By: Summit Partners PE VII, L.P.
Its General Partner

By: Summit Partners PE VII, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

SUMMIT PARTNERS PRIVATE EQUITY FUND VII-B, L.P.

By: Summit Partners PE VII, L.P.
Its General Partner

By: Summit Partners PE VII, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

SUMMIT PARTNERS PE VII, L.P.

By: Summit Partners PE VII, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SUMMIT PARTNERS SUBORDINATED DEBT FUND IV-A, L.P.

By: Summit Partners SD IV, L.P.
Its General Partner

By: Summit Partners SD IV, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

SUMMIT PARTNERS SUBORDINATED DEBT FUND IV-B, L.P.

By: Summit Partners SD IV, L.P.
Its General Partner

By: Summit Partners SD IV, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

SUMMIT PARTNERS SD IV, L.P.

By: Summit Partners SD IV, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SUMMIT INVESTORS I, LLC

By: Summit Investors Management, LLC
Its Manager

By: Summit Partners, L.P.
Its Manager

By: Summit Master Company, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

SUMMIT INVESTORS I (UK), L.P.

By: Summit Investors Management, LLC
Its General Partner

By: Summit Partners, L.P.
Its Manager

By: Summit Master Company, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

NPC :

MICROCIRCUIT SPECIALISTS, INC.
(f/k/a Solid State Equipment Corporation)

By: /s/
Name: Richard Richardson
Title: President

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EMPLOYEE SELLERS :

/s/

Name: Herman Itzkowitz

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EMPLOYEE SELLERS :

/s/

Name: Tom Werthan

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EMPLOYEE SELLERS :

/s/

Name: Erwan Le Roy

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EMPLOYEE SELLERS :

/s/

Name: John Voltz

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EMPLOYEE SELLERS :

/s/

Name: Vince Amorosi

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

/s/

Name: David Lam

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

BLOCKER CORPS :

SP SD IV-B SSEC BLOCKER CORP.

By: /s/
Name: John R. Carroll
Title: President

SP PE VII-B SSEC BLOCKER CORP.

By: /s/
Name: John R. Carroll
Title: President

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SELLER REPRESENTATIVE :

SUMMIT PARTNERS PRIVATE EQUITY FUND VII-A, L.P.
(solely in its capacity as Seller Representative)

By: Summit Partners PE VII, L.P.
Its General Partner

By: Summit Partners PE VII, LLC
Its General Partner

By: /s/
Name: John R. Carroll
Title: Member

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

Exhibit 21.1

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of Organization
U.S. Subsidiaries	
Veeco ALD Inc.	DE
Veeco APAC Inc.	DE
Veeco Process Equipment Inc.	DE
Veeco TK LLC	DE
SP PE VII-B, SSEC Blocker Corp.	DE
SP SD IV-B, SSEC Blocker Corp.	DE
Solid State Equipment Holdings LLC	DE
Solid State Equipment LLC	DE
SSEC Asia, LLC	PA
Foreign Subsidiaries	
Veeco ALD Korea Ltd.	South Korea
Veeco Asia Pte. Ltd.	Singapore
Veeco Malaysia Sdn. Bhd.	Malaysia
Veeco Korea LLC	South Korea
Veeco Instruments GmbH	Germany
SSEC GmbH	Germany
Veeco Instruments Limited	England
Veeco Instruments (Shanghai) Co. Ltd.	China
Veeco Taiwan Inc.	Taiwan

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- the Registration Statement (Form S-8 No. 333-39156) pertaining to the Veeco Instruments Inc. 2000 Stock Option Plan;
- the Registration Statement (Form S-8 No. 333-66574) pertaining to the Veeco Instruments Inc. 2000 Stock Option Plan and the Veeco Instruments Inc. 2000 Non-Officers Stock Option Plan;
- the Registration Statement (Form S-8 No. 333-88946) pertaining to the offer and sale of 2,200,000 shares of common stock under the Veeco Instruments Inc. 2000 Stock Option Plan;
- the Registration Statement (Form S-8 No. 333-107845) pertaining to the offer and sale of 630,000 shares of common stock under the Veeco Instruments Inc. 2000 Stock Option Plan;
- the Registration Statement (Form S-8 No. 333-127235) pertaining to the offer and sale of 2,000,000 shares of common stock under the Veeco Instruments Inc. 2000 Stock Incentive Plan;
- the Registration Statement (Form S-8 No. 333-127240) pertaining to the offer and sale of 1,500,000 shares of common stock under the Veeco Instruments Inc. 2000 Stock Incentive Plan;
- the Registration Statement (Form S-8 No. 333-166852) pertaining to the offer and sale of 3,500,000 shares of common stock under the Veeco Instruments Inc. 2010 Stock Incentive Plan; and
- the Registration Statement (Form S-8 No. 333-194737 pertaining to the offer and sale of 3,250,000 shares of common stock under the Veeco Instruments Inc. 2010 Stock Incentive Plan and 211,500 shares of common stock under the Veeco Instruments Inc. 2013 Inducement Stock Incentive Plan

of our reports dated February 24, 2015, with respect to the consolidated financial statements and schedule of Veeco Instruments Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Veeco Instruments Inc. and subsidiaries included in this Annual Report (Form 10-K) of Veeco Instruments Inc. and subsidiaries for the year ended December 31, 2014.

/s/ ERNST & YOUNG LLP

Jericho, New York
February 24, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a—14(a) or RULE 15d—14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, John R. Peeler, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2014 (the "Report") of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN R. PEELER

John R. Peeler
Chairman and Chief Executive Officer
Veeco Instruments Inc.
February 24, 2015

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a—14(a) or RULE 15d—14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Shubham Maheshwari, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2014 (the “Report”) of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ SHUBHAM MAHESHWARI
Shubham Maheshwari
Executive Vice President and
Chief Financial Officer
Veeco Instruments Inc.
February 24, 2015

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Veeco Instruments Inc. (the “Company”) on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Peeler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN R. PEELER
John R. Peeler
Chairman and Chief Executive Officer
Veeco Instruments Inc.
February 24, 2015

A signed original of this written statement required by Section 906 has been provided to Veeco Instruments Inc. and will be retained by Veeco Instruments Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Veeco Instruments Inc. (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shubham Maheshwari, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SHUBHAM MAHESHWARI
Shubham Maheshwari
Executive Vice President and
Chief Financial Officer
Veeco Instruments Inc.
February 24, 2015

A signed original of this written statement required by Section 906 has been provided to Veeco Instruments Inc. and will be retained by Veeco Instruments Inc. and furnished to the Securities and Exchange Commission or its staff upon request.