VEECO INSTRUMENTS INC

FORM 10-Q
(Quarterly Report)

Filed 11/02/05 for the Period Ending 09/30/05

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from to .

Commission file number: 0-16244

VEECO INSTRUMENTS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-2989601** (I.R.S. Employer Identification Number)
100 Sunnyside Boulevard, Suite B **Woodbury, New York** (Address of Principal Executive Offices)	**11797** (Zip Code)

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

Website: **www.veeco.com**

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

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

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

30,000,910 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on October 31, 2005.

SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Discussions containing such forward-looking statements may be found in Items 2 and 3 hereof, as well as within this Report generally. In addition, when used in this Report, the words "believes," "anticipates," "expects," "estimates," "plans," "intends," and similar expressions are intended to identify forward-looking statements. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from projected results. Factors that may cause these differences include, but are not limited to:

- The cyclicality of the microelectronics industries we serve directly affects our business.
- We operate in a highly competitive industry characterized by rapid technological change.
- We depend on a limited number of customers that operate in highly concentrated industries.
- Our quarterly operating results fluctuate significantly.
- Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses.
- Our inability to attract, retain and motivate key employees could have a material adverse effect on our business.
- We are exposed to the risks of operating a global business.
- Our success depends on protection of our intellectual property rights. We may be subject to claims of intellectual property infringement by others.
- We face securities class action and shareholder derivative lawsuits which could result in substantial costs, diversion of management's attention and resources and negative publicity.
- We rely on a limited number of suppliers.
- We may not obtain sufficient affordable funds to finance our future needs.
- We are subject to risks of non-compliance with environmental and safety regulations.
- We have adopted certain measures that may have anti-takeover effects which may make an acquisition of our company by another company more difficult.
- The other matters discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Report and in Veeco Instruments Inc. (the "Company's") Annual Report on Form 10-K for the year ended December 31, 2004.

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not undertake any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements .

Available Information

We file annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

Internet Address

We maintain a website where additional information concerning our business and various upcoming events can be found. The address of our website is www.veeco.com. We provide a link on our website, under Investors — Financial Info — SEC Filings, through which investors can access our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports. These filings are posted to our Internet site as soon as reasonably practicable after we electronically file such material with the SEC.

VEECO INSTRUMENTS INC.

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Part I. Financial Information

Item 1. Financial Statements

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

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004
Net sales	$ 100,078	$ 97,367
Cost of sales	55,816	61,913
Gross profit	44,262	35,454
Costs and expenses:		
Selling, general and administrative expense	21,210	19,590
Research and development expense	14,388	14,900
Amortization expense	4,038	4,336
Other expense, net	413	170
Total operating expenses	40,049	38,996
Operating income (loss)	4,213	(3,542)
Interest expense, net	1,815	1,793
Income (loss) before income taxes	2,398	(5,335)
Income tax provision (benefit)	832	(3,162)
Net income (loss)	$ 1,566	$ (2,173)
Net income (loss) per common share	$ 0.05	$ (0.07)
Diluted net income (loss) per common share	$ 0.05	$ (0.07)
Weighted average shares outstanding	29,965	29,670
Diluted weighted average shares outstanding	30,360	29,670

See accompanying notes.

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net sales	$ 297,343	$ 287,476
Cost of sales	172,123	174,309
Gross profit	125,220	113,167
Costs and expenses:		
Selling, general and administrative expense	62,816	61,166
Research and development expense	45,075	43,516
Amortization expense	12,554	13,807
Other expense (income), net	385	(471)
Total operating expenses	120,830	118,018
Operating income (loss)	4,390	(4,851)
Interest expense, net	5,920	6,231
Loss before income taxes	(1,530)	(11,082)
Income tax provision (benefit)	2,055	(4,542)
Net loss	$ (3,585)	$ (6,540)
Net loss per common share	$ (0.12)	$ (0.22)
Diluted net loss per common share	$ (0.12)	$ (0.22)
Weighted average shares outstanding	29,894	29,629
Diluted weighted average shares outstanding	29,894	29,629

See accompanying notes.

Veeco Instruments Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 111,703	$ 100,276
Accounts receivable, less allowance for doubtful accounts of $1,913 in 2005 and $2,420 in 2004	86,249	85,914
Inventories	99,465	110,643
Prepaid expenses and other current assets	7,347	9,039
Deferred income taxes	3,074	3,096
Total current assets	307,838	308,968
Property, plant and equipment at cost, less accumulated depreciation of $75,775 in 2005 and $67,565 in 2004	70,377	73,513
Goodwill	97,610	94,645
Purchased technology, less accumulated amortization of $48,820 in 2005 and $39,181 in 2004	58,948	68,587
Other intangible assets, less accumulated amortization of $21,416 in 2005 and $19,702 in 2004	23,113	25,007
Long-term investments	3,611	3,541
Other assets	4,598	2,652
Total assets	$ 566,095	$ 576,913
Liabilities and shareholders’ equity		
Current liabilities:		
Accounts payable	$ 32,922	$ 25,476
Accrued expenses	48,363	63,438
Deferred profit	2,609	1,196
Income taxes payable	1,745	1,702
Current portion of long-term debt	370	354
Total current liabilities	86,009	92,166
Long-term debt, net of current portion	229,301	229,581
Other non-current liabilities	4,346	2,814
Shareholders’ equity	246,439	252,352
Total liabilities and shareholders’ equity	$ 566,095	$ 576,913

See accompanying notes.

Veeco Instruments Inc. and Subsidiaries
Condensed Cons olidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2005	2004
Operating activities		
Net loss	$ (3,585)	$ (6,540)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,403	23,696
Deferred income taxes	(254)	(9,134)
Loss on sale of property, plant and equipment	346	—
Non-cash compensation expense	72	—
Other	—	35
Changes in operating assets and liabilities:		
Accounts receivable	(4,876)	(9,574)
Inventories	10,177	(20,597)
Accounts payable	7,642	15,518
Accrued expenses, deferred profit and other current liabilities	1,179	11,584
Other, net	(3,645)	(57)
Net cash provided by operating activities	29,459	4,931
Investing activities		
Capital expenditures	(8,553)	(9,518)
Payment for net assets of businesses acquired	(15,038)	(1,000)
Proceeds from sale of property, plant and equipment and assets held for sale	2,260	2,641
Net (purchases) maturities of long-term investments	(70)	4,333
Net cash used in investing activities	(21,401)	(3,544)
Financing activities		
Proceeds from stock issuance	1,820	3,017
Repayment of long-term debt	(264)	(250)
Net cash provided by financing activities	1,556	2,767
Effect of exchange rates on cash and cash equivalents	1,813	(3)
Net change in cash and cash equivalents	11,427	4,151
Cash and cash equivalents at beginning of period	100,276	106,830
Cash and cash equivalents at end of period	$ 111,703	$ 110,981

Non-Cash Items

During the first nine months of 2005, the Company had non-cash items excluded from the Condensed Consolidated Statements of Cash Flows of approximately $4.2 million. This amount consists of (1) $1.8 million of additional purchase price relating to the acquisition of Manufacturing Technology Inc., which resulted in a corresponding increase to goodwill; (2) $1.3 million for the transfer of property, plant and equipment to inventory; and (3) $1.1 million for the accrual of a contingent earn-out payment to the former shareholders of Nanodevices Inc. related to the achievement of certain revenue targets during the third quarter of 2005, which will be paid in the first quarter of 2006, and has been reflected as additional goodwill.

During the first nine months of 2004, the Company had non-cash items excluded from the Condensed Consolidated Statements of Cash Flows of approximately $7.3 million. This amount consists of (1) $6.0 million for the accrual of a contingent earn-out payment to the former owner of TurboDisc, resulting from the achievement of certain revenue targets during the third quarter of 2004, which was paid in the first quarter of 2005 and has been reflected as additional goodwill; (2) $0.9 million for the transfer of other current assets to property, plant and equipment; and (3) $0.4 million for the transfer of inventory to property, plant and equipment.

See accompanying notes.

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Net income (loss) per common share and diluted net income (loss) per common share are computed using the weighted average number of common shares outstanding during the period. The effect of approximately 212,000 common equivalent shares for the nine months ended September 30, 2005, and the effect of approximately 283,000 and 525,000 common equivalent shares for the three and nine months ended September 30, 2004, respectively, were antidilutive, and therefore are not included in the weighted average shares outstanding.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)		(In thousands)	
Weighted average shares outstanding	29,965	29,670	29,894	29,629
Dilutive effect of stock options and warrants	395	—	—	—
Diluted weighted average shares outstanding	30,360	29,670	29,894	29,629

In addition, the effect of the assumed conversion of subordinated convertible debentures into approximately 5.7 million common equivalent shares is antidilutive for the three and nine months ended September 30, 2005 and 2004, and therefore is not included in the diluted weighted average shares outstanding.

The Company accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations. No stock option compensation expense is reflected in net income (loss), as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) and diluted net income (loss) per common share if the Company had applied the fair value recognition provisions, under which stock option compensation expense would be recognized as incurred, of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation* , to stock-based employee compensation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net income (loss), as reported	$ 1,566	$ (2,173)	$ (3,585)	$ (6,540)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,904)	(3,234)	(29,121)	(9,162)
Pro forma net loss	$ (2,338)	$ (5,407)	$ (32,706)	$ (15,702)
Net income (loss) per common share:				
Net income (loss) and diluted net income (loss) per common share, as reported	$ 0.05	$ (0.07)	$ (0.12)	$ (0.22)
Net loss per common share, pro forma	$ (0.08)	$ (0.18)	$ (1.09)	$ (0.53)

On April 12, 2005, the Compensation Committee (the “Committee”) of the Company’s Board of Directors approved the acceleration of vesting of unvested, out-of-the-money stock options granted prior to September 1, 2004 under Veeco’s stock option plans. An option was considered out-of-the-money if the option exercise price was greater than the closing price of Veeco’s common stock on the NASDAQ National Market on April 11, 2005 ($15.26), the last trading day before the Committee approved the acceleration. As a result of this action, options to purchase approximately 2,522,000 shares of Veeco’s common stock became immediately exercisable, including options held by Veeco’s executive officers to purchase approximately 852,000 shares of common stock. The weighted average exercise price of the options accelerated was $21.24.

The purpose of the accelerated vesting was to eliminate future compensation expense that Veeco would otherwise recognize in its statement of operations with respect to these accelerated options upon the adoption by Veeco of SFAS No. 123(R) (See Note 2). In addition, because many of these options had exercise prices significantly in excess of current market values, they were not providing an effective means of employee retention and incentive compensation. The future compensation expense that will be avoided, based on Veeco’s implementation date for SFAS No. 123(R) of January 1, 2006, is approximately $7.9 million in 2006 and $3.6 million in 2007. Pro forma net loss for the nine months ended September 30, 2005, presented above, includes the impact of the accelerated vesting.

Reclassifications

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform with the 2005 presentation.

Note 2—Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123(R) (revised 2004), *Share-Based Payment* , which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* . SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* , and amends SFAS No. 95, *Statement of Cash Flows* . Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. On April 14, 2005, the Securities and Exchange Commission extended the adoption date of SFAS No. 123(R) to no later than the beginning of the first fiscal year beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS No. 123(R) as of January 1, 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

2. A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures for either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not yet determined whether it will adopt SFAS No. 123(R) using the modified prospective method or the modified retrospective method.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25’s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)’s fair value method will have a significant impact on the consolidated results of operations, although it will have no impact on the Company’s overall consolidated financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and net loss per common share in Note 1 to Veeco’s Condensed Consolidated Financial Statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce consolidated net operating cash flows and increase consolidated net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the Company did not recognize any amount of consolidated operating cash flows for such excess tax deductions in 2005 or 2004.

Note 3—Balance Sheet Information

Inventories

Interim inventories have been determined by lower of cost (principally first-in, first-out) or market. Inventories consist of:

	September 30, 2005	December 31, 2004
	(In thousands)	
Raw materials	$ 49,231	$ 52,301
Work-in-progress	35,482	35,004
Finished goods	14,752	23,338
	$ 99,465	$ 110,643

Accrued Warranties

The Company estimates the costs that may be incurred under the warranty it provides and records a liability in the amount of such costs at the time the related revenue is recognized. Factors that affect the Company's warranty liability include product failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. Changes in the Company's warranty liability during the period are as follows:

	Nine Months Ended September 30,	
	2005	2004
	(In thousands)	
Balance as of January 1	$ 6,771	$ 3,904
Warranties issued during the period	4,085	4,015
Settlements made during the period	(4,493)	(1,965)
Balance as of September 30	$ 6,363	$ 5,954

Note 4—Segment Information

The Company currently uses three separate reporting segments to manage the business, review operating results, assess performance and allocate resources. The first segment, called "ion beam and mechanical process equipment," combines the etch, deposition and dicing and slicing products sold mostly to data storage customers. This segment includes production facilities in Plainview, New York, Ft. Collins, Colorado and Camarillo, California. The second segment, called "epitaxial process equipment," includes the molecular beam epitaxy and metal organic chemical vapor deposition products primarily sold to high brightness light emitting diode and wireless telecommunications customers. This segment includes production facilities in St. Paul, Minnesota and Somerset, New Jersey. The third segment, called "metrology," represents equipment that is used to provide critical surface measurements on products such as semiconductor devices and thin film magnetic heads and includes Veeco's broad line of atomic force microscopes, optical interferometers and stylus profilers sold to semiconductor customers, data storage customers and thousands of research facilities and scientific centers. This segment includes production facilities in Santa Barbara, California and Tucson, Arizona.

The Company evaluates the performance of its reportable segments based on income or loss from operations before interest, income taxes and amortization ("EBITA"). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Costs excluded from segment profit primarily consist of interest, amortization, income taxes, corporate expenses, as well as other unusual charges for purchased in-process technology, restructuring and asset impairment charges and merger-related costs. Corporate expenses are comprised primarily of general and administrative expenses.

The following table presents certain data pertaining to the reportable product segments of the Company for the three and nine months ended September 30, 2005 and 2004, and at September 30, 2005 and December 31, 2004, in thousands:

	Ion Beam and Mechanical Process Equipment	Epitaxial Process Equipment	Metrology	Unallocated Corporate Amount	Total
Three Months Ended September 30, 2005					
Net sales	$ 39,389	$ 9,992	$ 50,697	$ —	$ 100,078
Income (loss) before interest, taxes, amortization and certain charges (EBITA)	4,185	(4,876)	11,692	(2,750)	8,251
Interest expense, net	—	—	—	1,815	1,815
Amortization expense	920	2,373	457	288	4,038
Income (loss) before income taxes	3,265	(7,249)	11,235	(4,853)	2,398
Three Months Ended September 30, 2004					
Net sales	30,297	33,407	33,663	—	97,367
(Loss) income before interest, taxes, amortization and certain charges (EBITA)	(235)	828	1,933	(1,732)	794
Interest expense, net	—	—	—	1,793	1,793
Amortization expense	789	2,444	796	307	4,336
(Loss) income before income taxes	(1,024)	(1,616)	1,137	(3,832)	(5,335)
Nine Months Ended September 30, 2005					
Net sales	113,828	47,072	136,443	—	297,343
Income (loss) before interest, taxes, amortization and certain charges (EBITA)	10,829	(11,953)	25,971	(7,903)	16,944
Interest expense, net	—	—	—	5,920	5,920
Amortization expense	3,060	7,121	1,495	878	12,554
Income (loss) before income taxes	7,769	(19,074)	24,476	(14,701)	(1,530)
Total assets as of September 30, 2005	185,160	122,905	136,872	121,158	566,095
Nine Months Ended September 30, 2004					
Net sales	103,550	66,442	117,484	—	287,476
Income (loss) before interest, taxes, amortization and certain charges (EBITA)	4,356	(2,621)	14,386	(5,667)	10,454
Interest expense, net	—	—	—	6,231	6,231
Amortization expense	3,091	7,458	2,339	919	13,807
Merger, restructuring and other	—	—	—	1,498	1,498
Income (loss) before income taxes	1,265	(10,079)	12,047	(14,315)	(11,082)
Total assets as of December 31, 2004	$ 184,266	$ 144,021	$ 140,654	$ 107,972	$ 576,913

Corporate total assets are comprised principally of cash at September 30, 2005 and December 31, 2004.

The following table outlines the components of net goodwill by business segment at September 30, 2005 and December 31, 2004 (in thousands):

	September 30, 2005	December 31, 2004
Ion Beam and Mechanical Process Equipment	$ 29,101	$ 27,276
Epitaxial Process Equipment	39,141	39,091
Metrology	29,368	28,278
Total	$ 97,610	$ 94,645

Note 5—Comprehensive Income (Loss)

The Company's comprehensive income (loss) is comprised of net income (loss), adjusted for foreign currency translation adjustments. The Company had no other sources affecting comprehensive income (loss). The Company had total comprehensive income (loss) of $0.9 million and ($7.8) million for the three and nine months ended September 30, 2005, respectively, and ($2.3) million and ($7.0) million for the three and nine months ended September 30, 2004, respectively.

Note 6—Restructuring

As a result of the acquisitions of Manufacturing Technology Inc. and Advanced Imaging Inc. and the resulting plan of consolidation of the two facilities in Ventura and Camarillo, California, certain long-lived assets of Advanced Imaging, Inc. were classified as held for sale as of December 31, 2004. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , these long-lived assets were measured at the lower of their carrying amount or fair value less cost to sell. Fair value was determined by the Company based upon the actual sale proceeds, which were received in February 2005 and April 2005. Approximately $2.2 million of fixed assets held for sale are included in prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets at December 31, 2004.

In conjunction with the plan announced by the Company in October 2004 to reduce employment levels by 10% in 2005, the Company recorded restructuring and other expenses of approximately $3.6 million in the fourth quarter of 2004. The $3.6 million charge consisted of $2.8 million of personnel severance costs and a $0.8 million accrual for costs related to an internal investigation of improper accounting transactions at the Company's TurboDisc business unit.

The $2.8 million charge for personnel costs included severance-related costs for approximately 107 employees, which included management, administration and manufacturing employees located at the Company's Plainview, New York and Camarillo, California (ion beam and mechanical process equipment) operations, the Somerset, New Jersey and St. Paul, Minnesota (epitaxial process equipment) operations, the Santa Barbara, California and Tucson, Arizona (metrology) facilities, the sales and service offices located in France, England and Singapore, and the corporate offices in Woodbury, New York. As of September 30, 2005, approximately $2.4 million has been paid and approximately $0.4 million remains accrued. The remainder is expected to be paid during the fourth quarter of 2005.

The $0.8 million charge for costs related to the internal investigation of improper accounting transactions at the Company's TurboDisc business unit included accounting, legal and other auditing fees of external consultants who assisted with the investigation. As of September 30, 2005, all costs have been paid and no amount remains accrued.

A reconciliation of the liability for the merger and restructuring charges during 2004 relating to severance and investigation costs is as follows (in millions):

	Ion Beam and Mechanical Process Equipment	Epitaxial Process Equipment	Metrology	Unallocated Corporate	Total
Charged to accrual	$ 1.0	$ 0.4	$ 0.4	$ 1.8	$ 3.6
Cash payments during 2004	0.3	—	0.1	0.3	0.7
Cash payments during the nine months ended September 30, 2005	0.7	0.4	0.3	1.1	2.5
Balance as of September 30, 2005	$ —	$ —	$ —	$ 0.4	$ 0.4

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Executive Summary:

Veeco designs, manufactures, markets and services a broad line of equipment primarily used by manufacturers in the data storage, semiconductor, high brightness light emitting diode (“HB-LED”) and wireless telecommunications industries. Veeco’s products also enable advancements in the growing field of nanoscience and other areas of scientific and industrial research. Our process equipment products precisely deposit or remove (etch) various materials in the manufacturing of advanced thin film magnetic heads (“TFMHs”) for the data storage industry and the HB-LED and wireless telecommunications industries. The Company currently uses three separate reporting segments to manage the business, review operating results, assess performance and allocate resources. The first segment, called “ion beam and mechanical process equipment”, combines the etch, deposition, precision lapping and slicing and dicing products sold mostly to data storage customers. The second segment, called “epitaxial process equipment”, includes the Molecular Beam Epitaxy (“MBE”) and Metal Organic Chemical Vapor Deposition (“MOCVD”) products primarily sold to HB-LED and wireless telecommunications customers. The third segment, called “metrology”, represents equipment that is used to provide critical surface measurements on products such as semiconductor devices and TFMHs, and includes our broad line of atomic force microscopes (“AFMs”), optical interferometers and stylus profilers sold to semiconductor customers, data storage customers and thousands of research facilities and scientific centers. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality. Our metrology solutions include key research instruments used by many universities, scientific laboratories and industrial applications.

We currently maintain manufacturing facilities in Arizona, California, Colorado, Minnesota, New Jersey and New York, with sales and service locations around the world.

Highlights of the Third Quarter of 2005:

- Sales were $100.1 million, up 2.8% from $97.4 million in the third quarter of 2004, down 3.2% sequentially from $103.4 million in the second quarter of 2005.
- Orders were $84.6 million, up 6.4% from $79.5 million in the third quarter of 2004, down 28.7% sequentially from $118.6 million in the second quarter of 2005.
- Net income of $1.6 million, compared with a net loss of $2.2 million in the third quarter of 2004.
- Cash and cash equivalents increased $2.3 million, compared with a decrease of $6.4 million in the third quarter of 2004.

Highlights of the First Nine Months of 2005:

- Sales were $297.3 million, up 3.4% from $287.5 million in the first nine months of 2004.
- Orders were $302.0 million, down 6.0% from $321.3 million in the first nine months of 2004.
- Net loss of $3.6 million, compared with a net loss of $6.5 million in the first nine months of 2004.
- Cash and cash equivalents increased $11.4 million, after the effect of making earn-out payments during the first quarter totaling $15.0 million relating to acquisitions, compared with an increase of $4.2 million in the first nine months of 2004, after the effect of making an earn-out payment of $1.0 million.

Current Business Conditions/Outlook:

In the first nine months of 2005, Veeco reported sales of $297.3 million, a 3.4% increase from the $287.5 million reported in the first nine months of 2004. Veeco’s bookings were $302.0 million, down from the $321.3 million reported in the first nine months of 2004. Third quarter orders were $84.6 million, up 6.4% over the prior year but down 28.7% sequentially from the strong $118.6 million Veeco booked in the second quarter of this year. We had forecasted that third quarter bookings would be weak following the strong second quarter, but orders were about 10.0% lower than anticipated. We expect an improvement in fourth quarter orders, currently forecasted to be between $90-100 million. During the third quarter we experienced some seasonality due to customer vacation shut downs, and in previous years we have seen that this seasonality effect improves in the fourth quarter. In particular, we expect orders to improve in the fourth quarter from our data storage, semiconductor and scientific research markets. As a result of the weak third quarter booking rate, Veeco is reducing its headcount by approximately 5.0% in the fourth quarter, with many actions having already been taken.

For the 2005 year, Veeco had forecasted that its revenues would be flat to modestly higher than the previous year, and that the Company would focus on improving its profitability. This plan, which is expected to be met for the year, is based upon headcount reductions as well as a product mix expectation for 2005 revenues that has led to, and we expect will continue to lead to, increased gross margins. The Company currently expects higher 2005 revenues in ion beam products, lower 2005 revenues in epitaxial equipment products and growth in its metrology revenues as compared to 2004. This revenue mix change, as well as other factors such as improved pricing and volume increases in some product lines was expected, and has resulted in higher gross margins in each subsequent quarter of 2005 compared with 2004. In the third quarter, Veeco reported its fourth consecutive quarter with gross margin improvements of approximately two percentage points per quarter. Veeco's third quarter gross margins improved to 44.2%, up about eight percentage points from the third quarter of 2004 and about two percentage points higher than the second quarter of 2005. Veeco currently expects gross margins to increase again in the fourth quarter of 2005 as compared to the third quarter of 2005.

Technology changes are continuing in all of Veeco's markets: the continued ramp up of capacity for 80 GB hard drives in data storage and investments in next generation drives for smaller form factor hard disk drive consumer device applications; the increased use of Veeco's automated AFMs for 90 nanometer and below semiconductor applications; the opportunity for Veeco's MOCVD and MBE products to further penetrate the emerging HB-LED and wireless market; and the continued funding of nanoscience research which is one driver of Veeco's scientific research business. While Veeco's customers remain cautious regarding capital spending, they are placing orders for certain of Veeco's process equipment and metrology products that enable the production of their next generation products. Veeco remains well positioned to provide leadership technologies for growth applications in semiconductor, data storage, HB-LED/wireless and scientific research. While 2005 will be a relatively flat year with significantly improved profitability compared to 2004, we currently forecast that 2006 will be a growth year for the company driven by new Veeco product introductions in Ion Beam, Epitaxial and Metrology, which address the multi-market growth opportunities outlined above. Veeco currently intends to maintain its focus on gross margin and profitability improvements into 2006.

Results of Operations:

Three Months Ended September 30, 2005 and 2004

The following tables show selected items of Veeco's Condensed Consolidated Statements of Operations, percentages of sales and comparisons between the three months ended September 30, 2005 and 2004 and the analysis of sales and orders for the same periods between our segments, industries and regions (in thousands):

	Three Months Ended September 30, 2005		2004		Dollar Incr/(Decr) Year to Year
Net sales	$ 100,078	100.0%	$ 97,367	100.0%	$ 2,711
Cost of sales	55,816	55.8	61,913	63.6	(6,097)
Gross profit	44,262	44.2	35,454	36.4	8,808
Operating expenses:					
Selling, general and administrative expense	21,210	21.2	19,590	20.1	1,620
Research and development expense	14,388	14.4	14,900	15.3	(512)
Amortization expense	4,038	4.0	4,336	4.4	(298)
Other expense, net	413	0.4	170	0.2	243
Total operating expenses	40,049	40.0	38,996	40.1	1,053
Operating income (loss)	4,213	4.2	(3,542)	(3.6)	7,755
Interest expense, net	1,815	1.8	1,793	1.8	22
Income (loss) before income taxes	2,398	2.4	(5,335)	(5.5)	7,733
Income tax provision (benefit)	832	0.8	(3,162)	(3.3)	3,994
Net income (loss)	$ 1,566	1.6%	$ (2,173)	(2.2)%	$ 3,739

	Sales: Three Months Ended September 30, 2005	2004	Sales: Dollar and Percentage Incr/(Decr) Year to Year		Orders: Three Months Ended September 30, 2005	2004	Orders: Dollar and Percentage Incr/(Decr) Year to Year		Book to Bill Ratio 2005	2004
Segment Analysis										
Ion Beam and Mechanical Process Equipment	$ 39,389	$ 30,297	$ 9,092	30.0%	$ 34,463	$ 18,728	$ 15,735	84.0%	0.87	0.62
Epitaxial Process Equipment	9,992	33,407	(23,415)	(70.1)	12,684	15,545	(2,861)	(18.4)	1.27	0.47
Metrology	50,697	33,663	17,034	50.6	37,408	45,224	(7,816)	(17.3)	0.74	1.34
Total	$ 100,078	$ 97,367	$ 2,711	2.8%	$ 84,555	$ 74,497	$ 5,058	6.4%	0.84	0.82
Industry Analysis										
Data Storage	$ 50,116	$ 27,054	$ 23,062	85.2%	$ 33,554	$ 18,833	$ 14,721	78.2%	0.67	0.70
HB-LED/wireless	9,433	34,424	(24,991)	(72.6)	14,647	14,652	(5)	—	1.55	0.43
Semiconductor	12,226	10,366	1,860	17.9	11,271	15,866	(4,595)	(29.0)	0.92	1.53
Research and Industrial	28,303	25,523	2,780	(10.9)	25,083	30,146	(5,063)	(16.8)	0.89	1.18
Total	$ 100,078	$ 97,367	$ 2,711	2.8%	$ 84,555	$ 79,497	$ 5,058	6.4%	0.84	0.82
Regional Analysis										
US	$ 36,833	$ 31,800	$ 5,033	15.8%	$ 30,498	$ 31,825	$ (1,327)	(4.2)%	0.83	1.00
Europe	15,976	18,307	(2,331)	(12.7)	18,231	17,446	785	4.5	1.14	0.95
Japan	12,353	13,032	(679)	(5.2)	16,798	12,959	3,839	29.6	1.36	0.99
Asia-Pacific	34,916	34,228	688	2.0	19,028	17,267	1,761	10.2	0.54	0.50
Total	$ 100,078	$ 97,367	$ 2,711	2.8%	$ 84,555	$ 79,497	$ 5,058	6.4%	0.84	0.82

Net sales of $100.1 million for the third quarter of 2005 were up 2.8% from the comparable 2004 period. By segment, metrology sales were up $17.0 million or 50.6% and ion beam and mechanical process equipment sales were up $9.1 million or 30.0%, while epitaxial process equipment sales were down $23.4 million or 70.1%. Metrology sales were up primarily due to increased purchases in the semiconductor, data storage and research and industrial markets. The improvement in ion beam and mechanical process equipment sales is principally attributable to increased purchases by data storage customers resulting from a continued industry increase in capacity as well as technology investment in next-generation, higher areal density perpendicular thin film heads. The decrease in epitaxial process equipment sales is principally attributable to decreased purchases by HB-LED/wireless customers. By region, sales in the U.S. and Asia Pacific increased by 15.8% and 2.0%, respectively, while sales in Europe and Japan declined by 12.7% and 5.2%, respectively. The Company believes that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Orders of $84.6 million for the third quarter of 2005 increased by $5.1 million, or 6.4%, from the comparable 2004 period. By segment, the 84.0% increase in ion beam and mechanical process equipment was due to increased orders from data storage customers. The 18.4% decrease in epitaxial process equipment orders was driven by an $8.2 million reduction in orders for MOCVD systems offset by an increase in MBE orders of $5.3 million. The 17.3% decrease in metrology orders was due to a $5.8 million decrease in AFM orders and a $2.0 million decrease in optical metrology orders.

The Company's book/bill ratio for the third quarter of 2005, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 0.84. Historically, the third quarter has been the lowest quarter for orders for each of the last five years impacted by vacation shut downs and other buying factors. During the quarter ended September 30, 2005, the Company experienced order cancellations of $8.3 million and the rescheduling of order delivery dates by customers principally related to the MOCVD product line. The Company's backlog as of September 30, 2005 was approximately $131.7 million. Due to changing business conditions and customer requirements, the Company may continue to experience cancellations and/or rescheduling of orders.

Gross profit for the quarter ended September 30, 2005 was 44.2%, as compared to 36.4% in the third quarter of 2004. The ion beam and mechanical process equipment gross margins increased from 34.8% to 41.0% and the metrology gross margins increased from 49.5% to 52.6%, in each segment primarily due to increased sales volume. Epitaxial process equipment gross margins decreased from 24.7% to 14.0%, primarily due to a 70.1% reduction in sales volumes, mostly from MOCVD products.

Selling, general and administrative expenses were $21.2 million, or 21.2% of sales, in the third quarter of 2005, compared with $19.6 million, or 20.1%, in the third quarter of 2004. The $1.6 million increase is primarily attributable to higher insurance and legal costs, an increase in personnel costs, including incentive bonus accruals and annual salary increases, as well as incremental costs attributable to the Manufacturing Technology Inc. acquisition during the fourth quarter of 2004.

Research and development expense totaled $14.4 million in the third quarter of 2005, a decrease of $0.5 million from the third quarter of 2004, due primarily to spending reductions in the epitaxial process equipment division. As a percentage of sales, research and development decreased in the third quarter of 2005 to 14.4% from 15.3% in the third quarter of 2004.

Amortization expense totaled $4.0 million in the third quarter of 2005 compared to $4.3 million in the third quarter of 2004, due to reductions in amortization expense for intangible assets that were fully amortized.

Other expense, net, of $0.4 million in the third quarter of 2005 consisted of net foreign exchange losses and other expenses. Other expense, net, of $0.2 million in the third quarter of 2004 principally consisted of foreign exchange gains and losses.

Net interest expense was $1.8 million in the third quarters of 2005 and 2004.

Income tax provision for the quarter ended September 30, 2005 amounted to $0.8 million, principally for foreign taxes, compared with an income tax benefit of $3.2 million in the third quarter of 2004. For the year ended December 31, 2004, in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes* , the Company recorded a charge of approximately $54.0 million to establish a valuation allowance against the balance of its domestic net deferred tax assets, which consisted of net operating loss and tax credit carryforwards, as well as temporary deductible differences. For the quarter ended September 30, 2005, the Company incurred a domestic net loss and, accordingly, established a valuation allowance to offset domestic deferred tax assets. If the Company is able to realize part or all of the deferred tax assets in future periods, it will reduce its provision for income taxes with a reversal of the valuation allowance in an amount that corresponds with the income tax liability generated.

Nine Months Ended September 30, 2005 and 2004

The following tables show selected items of Veeco's Condensed Consolidated Statements of Operations, percentages of sales and comparisons between the nine months ended September 30, 2005 and 2004 and the analysis of sales and orders for the same periods between our segments, industries and regions (in thousands):

	Nine Months Ended September 30, 2005		2004		Dollar Incr/(Decr) Year to Year
Net sales	$ 297,343	100.0%	$ 287,476	100.0%	$ 9,867
Cost of sales	172,123	57.9	174,309	60.6	(2,186)
Gross profit	125,220	42.1	113,167	39.4	12,053
Operating expenses:					
Selling, general and administrative expense	62,816	21.1	61,166	21.3	1,650
Research and development expense	45,075	15.2	43,516	15.1	1,559
Amortization expense	12,554	4.2	13,807	4.8	(1,253)
Other expense (income), net	385	0.1	(471)	(0.1)	856
Total operating expenses	120,830	40.6	118,018	41.1	2,812
Operating income (loss)	4,390	1.5	(4,851)	(1.7)	9,241
Interest expense, net	5,920	2.0	6,231	2.2	(311)
Loss before income taxes	(1,530)	(0.5)	(11,082)	(3.9)	9,552
Income tax provision (benefit)	2,055	0.7	(4,542)	(1.6)	6,597
Net loss	$ (3,585)	(1.2)%	$ (6,540)	(2.3)%	$ 2,955

	Sales: Nine Months Ended September 30, 2005	2004	Sales: Dollar and Percentage Incr/(Decr) Year to Year		Orders: Nine Months Ended September 30, 2005	2004	Orders: Dollar and Percentage Incr/(Decr) Year to Year		Book to Bill Ratio 2005	2004
Segment Analysis										
Ion Beam and Mechanical Process Equipment	$ 113,828	$ 103,550	$ 10,278	9.9%	$ 132,255	$ 92,934	$ 39,321	42.3%	1.16	0.90
Epitaxial Process Equipment	47,072	66,442	(19,370)	(29.2)	38,704	109,231	(70,527)	(64.6)	0.82	1.64
Metrology	136,443	117,484	18,959	16.1	131,086	119,133	11,953	10.0	0.96	1.01
Total	$ 297,343	$ 287,476	$ 9,867	3.4%	$ 302,045	$ 321,298	$ (19,253)	(6.0)%	1.02	1.12
Industry Analysis										
Data Storage	$ 123,101	$ 94,020	$ 29,081	30.9%	$ 139,248	$ 90,221	$ 49,027	54.3 %	1.13	0.96
HB-LED/wireless	45,642	72,401	(26,759)	(37.0)	41,892	104,745	(62,853)	(60.0)	0.92	1.45
Semiconductor	46,476	39,187	7,289	18.6	44,665	48,187	(3,522)	(7.3)	0.96	1.23
Research and Industrial	82,124	81,868	256	0.3	76,240	78,145	(1,905)	(2.4)	0.93	0.95
Total	$ 297,343	$ 287,476	$ 9,867	3.4%	$ 302,045	$ 321,298	$ (19,253)	(6.0)%	1.02	1.12
Regional Analysis										
US	$ 99,435	$ 103,571	$ (4,136)	(4.0)%	$ 99,122	$ 133,063	$ (33,941)	(25.5)%	1.00	1.28
Europe	60,176	49,036	11,140	22.7	50,933	43,998	6,935	15.8	0.85	0.90
Japan	47,337	47,542	(205)	(0.4)	53,209	48,550	4,659	9.6	1.12	1.02
Asia-Pacific	90,395	87,327	3,068	3.5	98,781	95,687	3,094	3.2	1.09	1.10
Total	$ 297,343	$ 287,476	$ 9,867	3.4%	$ 302,045	$ 321,298	$ (19,253)	(6.0)%	1.02	1.12

Net sales of $297.3 million for the nine months ended September 30, 2005 were up $9.9 million or 3.4% from the comparable 2004 period. By segment, metrology sales were up $19.0 million or 16.1% and ion beam and mechanical process equipment and metrology sales were up $10.3 million or 9.9%, while epitaxial process equipment sales were down $19.4 million or 29.2%. The increase in metrology sales is principally attributable to increased automated AFM sales. The improvement in ion beam and mechanical process equipment sales is principally attributable to an increase in the data storage market, offset by a decline in the HB-LED/wireless market. The decline in epitaxial process equipment sales is principally attributable to decreased purchases by HB-LED/wireless customers. By region, sales in Europe and Asia Pacific increased 22.7% and 3.5%, respectively, while sales in the U.S. and Japan declined by 4.0% and 0.4%, respectively. The Company believes that there will continue to be period-to-period variations in the geographic distribution of sales.

Orders of $302.0 million for the nine months ended September 30, 2005 represented a decrease of $19.3 million, or 6.0%, from the comparable 2004 period. By segment, the 64.6% decrease in epitaxial process equipment orders was driven by a $66.4 million reduction in orders for MOCVD systems and a decrease in MBE orders of $4.1 million. The 42.3% increase in ion beam and mechanical process equipment was due to increased orders from data storage customers. The 10.0% increase in metrology orders was due to a $2.8 million increase in AFM products and a $9.1 million increase in optical metrology products.

The Company’s book/bill ratio for the nine months ended September 30, 2005, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.02.

Gross profit for the nine months ended September 30, 2005 was 42.1%, as compared to 39.4% in the comparable period of 2004. Gross profit in 2004 was negatively impacted by $1.5 million in purchase accounting adjustments relating to the acquisitions of the TurboDisc business unit and Aii. These purchase accounting adjustments resulted from the required capitalization of profit in inventory and the permanent elimination of certain deferred revenue. The ion beam and mechanical process equipment gross margins were 40.5% in the first nine months of 2005, as compared to 35.0% in the same period in 2004, primarily due to increased volume and cost cutting measures at the Plainview ion beam facility during the nine months ended September 30, 2005. Epitaxial process equipment gross margins in the first nine months of 2005 were 19.1%, as compared to 24.7% in the prior year period. This decrease was due to a 29.2% reduction in sales volumes primarily from MOCVD products. Metrology gross margins decreased from 52.7% to 51.4% principally due to a less favorable product mix of AFM products.

Selling, general and administrative expenses were $62.8 million, or 21.1% of sales in the nine months ended September 30, 2005, compared with $61.2 million, or 21.3% in the nine months ended September 30, 2004. The $1.6 million increase is primarily attributable to higher insurance and legal costs, an increase in accrued bonuses and annual salary increases, as well as incremental costs attributable to the Manufacturing Technology Inc. acquisition during the fourth quarter of 2004.

Research and development expense totaled $45.1 million during the first nine months of 2005, an increase of $1.6 million from the first nine months of 2004, due an increase in product development in the ion beam and mechanical and epitaxial process equipment divisions. As a percentage of sales, research and development expense increased during the nine months ended September 30, 2005 to 15.2% from 15.1% for the corresponding period of 2004.

Other expense, net, for the nine months ended September 30, 2005, was $0.4 million, compared to other income, net of $0.5 million for the nine months ended September 30, 2004.

Net interest expense in the nine months ended September 30, 2005 was $5.9 million compared to $6.2 million in the nine months ended September 30, 2004. The change is principally due to the increase in interest income resulting from higher interest rates.

Income tax provision for the nine months ended September 30, 2005 amounted to $2.1 million, principally for foreign taxes, compared with a benefit of $4.5 million for the nine months ended September 30, 2004. For the year ended December 31, 2004, in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes* , the Company recorded a charge of approximately $54.0 million to establish a valuation allowance against the balance of its domestic net deferred tax assets, which consists of net operating loss and tax credit carryforwards, as well as temporary deductible differences.   For the nine months ended September 30, 2005, the Company incurred a domestic net loss and, accordingly, established a valuation allowance to offset domestic deferred tax assets. If the Company is able to realize part or all of the deferred tax assets in future periods, it will reduce its provision for income taxes with a reversal of the valuation allowance in an amount that corresponds with the income tax liability generated.

Liquidity and Capital Resources

The Company had a net increase in cash and cash equivalents of $11.4 million in the nine months ended September 30, 2005. Cash provided by operations was $29.5 million for this period, as compared to cash provided by operations of $4.9 million for the comparable 2004 period. Net income adjusted for non-cash items provided operating cash flows of $19.0 million for the nine months ended September 30, 2005, compared to $8.1 million for the comparable 2004 period. Accounts receivable for the nine months ended September 30, 2005 increased by $4.9 million, primarily due to increased billing activity during September generated by the Ion Beam business unit offset, in part, by a reduction in the Epitaxial business unit related to a decline in sales volume.   During the nine months ended September 30, 2005, inventories decreased by approximately $10.2 million as each business segment has continued to reduce its inventory levels. During the nine months ended September 30, 2005, accounts payable increased by $7.6 million, primarily a result of the timing of payment of certain vendor invoices. Accrued expenses and other current liabilities increased $1.2 million during the nine months ended September 30, 2005. Other, net increased by $3.6 million due to the increased costs in capitalized software, as well as prepaid insurance.

Cash used in investing activities of $21.4 million for the nine months ended September 30, 2005, was primarily due to earn-out payments of $13.1 million to the former owner of the TurboDisc business unit, and $1.9 million to the previous shareholders of Nanodevices Inc., and capital expenditures of $8.6 million, partially offset by $2.2 million in proceeds from the sale of certain assets.

Cash provided by financing activities of $1.6 million for the nine months ended September 30, 2005 resulted from $1.8 million in stock issuance proceeds offset by $0.2 million in debt payments.

The Company believes that existing cash balances, together with cash generated from operations and amounts available under the Company’s $50.0 million revolving credit facility, will be sufficient to meet the Company’s projected working capital and other cash flow requirements for the next twelve months, as well as the Company’s contractual obligations over the next three years.   The Company believes it will be able to meet its obligation to repay the outstanding $220 million subordinated notes that mature on December 21, 2008 through a combination of refinancing, cash generated from operations and/or other means.

The Company is potentially liable for earn-out payments to the former owners of the businesses acquired in 2003 based on revenue targets achieved by each of the respective acquired businesses. The maximum remaining amount of these contingent liabilities is $17.0 million, consisting of $9.0 million to the former shareholders of Aii over a two-year period, $1.1 million to Nanodevices Inc. over a two-year period and $6.9 million to the former owner of TurboDisc, over a one-year period. Any amounts payable are to be paid during the first quarter of 2006 and 2007 to the former owners of Aii and during the first quarter of 2006 to the former owner of TurboDisc. These payments would be based on the Company achieving revenue in excess of certain targets for the preceding fiscal year. The target for the $1.1 million earn-out payment to Nanodevices Inc. was achieved as of September 30, 2005 and will be paid during the first quarter of 2006. It is not presently possible to calculate the amounts, if any, that may be due to the former shareholders of Aii or to the former owner of TurboDisc.

On March 15, 2005, the Company entered into a new revolving credit facility, which provides for borrowings of up to $50.0 million (the “Facility”). The Facility’s annual interest rate is a floating rate equal to the prime rate of the agent bank plus $^{1}/_{4}$% and in the event the Company’s ratio of debt to cash flow is below a defined amount, the annual interest rate is adjustable to a minimum rate equal to the prime rate. A LIBOR based interest rate option is also provided. The Facility has a term of three years and borrowings under the Facility may be used for general corporate purposes, including working capital and acquisitions. The Facility contains certain restrictive covenants which, among other requirements, impose limitations with respect to the incurrence of indebtedness, the payment of dividends, long-term leases, investments, mergers, acquisitions, consolidations and sales of assets. The Company is required to satisfy certain financial tests under the Facility and substantially all of the assets of the Company and its material domestic subsidiaries, other than real estate, have been pledged to secure the Company’s obligations under the Facility. As of September 30, 2005, no borrowings were outstanding under the Facility.

Application of Critical Accounting Policies

General: Veeco's discussion and analysis of its financial condition and results of operations are based upon Veeco's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Veeco to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, intangible assets and other long-lived assets, income taxes, warranty obligations, restructuring costs and contingent litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company considers certain accounting policies related to revenue recognition, the valuation of inventories, the impairment of goodwill and indefinite-lived intangible assets, warranty costs, the impairment of long-lived assets and the accounting for deferred taxes to be critical policies due to the estimation processes involved in each.

Revenue Recognition: The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104, *Revenue Recognition* . Certain of our product sales are accounted for as multiple-element arrangements in accordance with EITF 00-21, *Revenue Arrangements with Multiple Deliverables.* A multiple-element arrangement is a transaction, which may involve the delivery or performance of multiple products, services or rights to use assets, and performance may occur at different points in time or over different periods of time. The Company recognizes revenue when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable and collectibility is reasonably assured. For products produced according to the Company's published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested, it has been demonstrated that it meets the customer's specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount of any customer retention (generally 10% to 20%), which is not payable by the customer until installation is completed and final customer acceptance is achieved. Installation is not deemed to be essential to the functionality of the equipment since installation does not involve significant changes to the features or capabilities of the equipment or building complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% to 2% of the sales value of the related equipment. For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 80% to 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the amount billed at the time of shipment. The profit on the amount billed for these transactions is deferred and recorded as deferred profit in the accompanying balance sheets. At September 30, 2005 and December 31, 2004, $2.6 million and $1.2 million, respectively, are recorded in deferred profit. Service and maintenance contract revenues are recorded as deferred revenue, which is included in other accrued expenses, and recognized as revenue on a straight-line basis over the service period of the related contract.

Inventory Valuation: Inventories are stated at the lower of cost (principally first-in, first-out method) or market. Management evaluates the need to record adjustments for impairment of inventory on a quarterly basis. The Company's policy is to assess the valuation of all inventories, including raw materials, work-in-process, finished goods and spare parts. Obsolete inventory or inventory in excess of management's estimated usage for the next 18 to 24 month's requirements is written-down to its estimated market value, if less than its cost. Inherent in the estimates of market value are management's estimates related to Veeco's future manufacturing schedules, customer demand, technological and/or market obsolescence, possible alternative uses and ultimate realization of excess inventory.

Goodwill and Indefinite-Lived Intangible Asset Impairment: The Company has significant intangible assets related to goodwill and other acquired intangibles. In assessing the recoverability of the Company's goodwill and other indefinite-lived intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If it is determined that impairment indicators are present and that the assets will not be fully recoverable, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Changes in strategy and/or market conditions could significantly impact these assumptions, and thus Veeco may be required to record impairment charges for the assets not previously recorded.

Long-Lived Asset Impairment: The carrying values of long-lived assets are periodically reviewed to determine whether any impairment indicators are present. If it is determined that such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining depreciation period, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Assumptions utilized by management in reviewing for impairment of long-lived assets could be affected by changes in strategy and/or market conditions which may require Veeco to record additional impairment charges for these assets, as well as impairment charges on other long-lived assets not previously recorded.

Warranty Costs: The Company estimates the costs that may be incurred under the warranty it provides and records 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. The Company's warranty obligation is affected by product failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. As the Company's customer engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from the Company's estimates, revisions to the estimated warranty liability are required.

Deferred Tax Valuation Allowance: As part of the process of preparing Veeco's condensed consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax expense, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within Veeco's condensed consolidated balance sheet. The carrying value of deferred tax assets is adjusted by a valuation allowance to recognize the extent to which the future tax benefits will be recognized on a more likely than not basis. Our net deferred tax assets consist primarily of net operating loss and tax credit carryforwards, and timing differences between the book and tax treatment of inventory and other asset valuations. Realization of these net deferred tax assets is dependent upon our ability to generate future taxable income.

We record valuation allowances in order to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, we consider a variety of factors, including the scheduled reversal of deferred tax liabilities, future taxable income, and prudent and feasible tax planning strategies. Under SFAS No. 109, factors such as current and previous operating losses are given significantly greater weight than the outlook for future profitability in determining the deferred tax asset's carrying value.

For the year ended December 31, 2004, the Company recorded a charge of approximately $54.0 million to establish a valuation allowance against the balance of its domestic net deferred tax assets, which consists of net operating loss and tax credit carryforwards, as well as temporary deductible differences. The valuation allowance was calculated in accordance with the provisions of SFAS No. 109, which places primary importance on the Company's historical results of operations. Although the Company's results in prior years were significantly affected by restructuring and other charges, the Company's historical losses and losses incurred during 2004 represented negative evidence sufficient to require a full valuation allowance under the provisions of SFAS No. 109. If the Company is able to realize part or all of the deferred tax assets in future periods, it will reduce its provision for income taxes with a reversal of the valuation allowance in an amount that corresponds with the income tax liability generated.

At September 30, 2005 and December 31, 2004, we have foreign deferred tax assets, net of valuation allowances, of $3.1 million. We believe it is more likely than not that we will be able to realize these assets through the reduction of future taxable income.

Other Recent Accounting Pronouncements: On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (R) (revised 2004), *Share-Based Payment* , which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* . SFAS No. 123 (R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* , and amends SFAS No. 95, *Statement of Cash Flows* . Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) must be adopted no later than the beginning of the first fiscal year beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS No. 123(R) on January 1, 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

2. A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures for either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not yet determined whether it will adopt SFAS No. 123(R) using the modified prospective method or the modified retrospective method.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25’s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)’s fair value method will have a significant impact on consolidated results of operations, although it will have no impact on the Company’s overall consolidated financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and net loss per common share in Note 1 to Veeco’s Condensed Consolidated Financial Statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce consolidated net operating cash flows and increase consolidated net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the Company did not recognize an amount of consolidated operating cash flows for such excess tax deductions in 2005 or 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Veeco's net sales to foreign customers represented approximately 63.2% and 66.6% of Veeco's total net sales for the three and nine months ended September 30, 2005, respectively, and 67.3% and 64.0% for the respective comparable 2004 periods. The Company expects that net sales to foreign customers will continue to represent a large percentage of Veeco's total net sales. Veeco's net sales denominated in foreign currencies represented approximately 20.2% and 19.5% of Veeco's total net sales for the three and nine months ended September 30, 2005, respectively, and 18% and 20% for the respective comparable 2004 periods. The aggregate foreign currency exchange loss in 2005 included in determining the consolidated results of operations was approximately $0.3 million and $0.5 million, including approximately $0.1 million of hedging losses and less than $0.1 million of hedging gains on forward exchange contracts, for the three and nine months ended September 30, 2005, respectively. The aggregate foreign currency exchange loss in 2004 included in determining the consolidated results of operations was approximately $0.3 million and $0.1 million, including approximately $0.1 million of hedging losses and less than $0.1 million of hedging gains on forward exchange contracts, for the three and nine months ended September 30, 2004, respectively. Veeco is exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have the largest impact on translating Veeco's international operating profit are the Japanese Yen and the Euro. Veeco uses derivative financial instruments to mitigate these risks. Veeco does not use derivative financial instruments for speculative or trading purposes. The Company enters into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known currency exposures. The average notional amount of such contracts was approximately $4.2 million and $4.1 million for the three and nine months ended September 30, 2005, respectively. As of September 30, 2005, the Company had entered into forward contracts for the month of October for the notional amount of approximately $17.1 million, which approximates the fair market value on September 30, 2005.

Item 4. Controls and Procedures.

The Company's senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings.

The Company is presently in the process of implementing a new company-wide integrated applications software and, to date, has completed the conversion to this new platform in four locations. As a result, certain changes have been made to the Company's internal controls, which management believes will strengthen the Company's internal control structure. There have been no other significant changes in our internal controls or other factors that could significantly affect these controls after such evaluation.

Part II. Other Information

Item 6. 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.

Number	Description	Incorporated by Reference to the Following Document:
10.1	Letter agreement dated October 31, 2005 between Veeco Instruments Inc. and Robert P. Oates.	*
10.2	Letter agreement dated October 31, 2005 between Veeco Instruments Inc. and Jeannine P. Sargent.	*
10.3	Form of Restricted Stock Agreement pursuant to the Veeco Instruments Inc. 2000 Stock Incentive Plan.	*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) or Rule 15d – 14 (a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) or Rule 15d – 14 (a) of the Securities Exchange Act of 1934.	*
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.	*
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.	*

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 2, 2005

Veeco Instruments Inc.

By: /s/ EDWARD H. BRAUN
Edward H. Braun
Chairman and Chief Executive Officer

By: /s/ JOHN F. REIN, JR.
John F. Rein, Jr.
Executive Vice President, Chief Financial Officer and Secretary

INDEX TO EXHIBITS

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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.	*

* Filed herewith

Exhibit 10.1

[LETTERHEAD]

October 31, 2005

Robert P. Oates
c/o Veeco Instruments Inc.
100 Sunnyside Boulevard, Suite B
Woodbury, NY 11797

Dear Bob:

We are pleased to provide this letter summarizing the proposed terms of your promotion to the position of Senior Vice President, Data Storage, reporting to Don Kania. The effective date of your promotion and salary increase will be October 3, 2005; the effective date of your participation in the long term incentive plan (described below) will coincide with the implementation of this plan, currently targeted to be January 1, 2006. The terms applicable to your promotion, are as follows:

- Your new bi-weekly salary will be $11,153.85, which is equal to an annual salary rate of $290,000.

- You will be eligible to participate in the annual Veeco Management Bonus Plan. Your target bonus will be 50% of your base earnings for the plan year. Your 2005 bonus calculation will be based on EBITA results vs. plan, apportioned at 75% Data Storage and 25% Corporate.

- You will be eligible to participate in a new long-term incentive plan. Your target bonus for this plan will be 75% of your actual annual bonus award. Awards payable under this plan will be earned over a three-year period and will be based on the achievement of performance metrics to be defined. We are currently working to finalize the terms of this plan and will present the details to you following its final approval.

- You will be granted a restricted stock award in the amount of 20,000 shares of Veeco Common Stock under the Veeco 2000 Stock Incentive Plan. These shares will be subject to restrictions that will lapse one-third, one-third and one-third on the first, second and third anniversaries of the date of grant.

This letter, together with the Additional Provisions attached hereto, sets forth the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements among the parties with respect thereto, except for any employee confidentiality and/or assignment of inventions agreements which shall continue in accordance with their terms.

Bob, this promotion reflects your excellent contributions to the growth of Veeco. We look forward to a long and rewarding relationship and to providing you with the challenge, responsibility and opportunity that you desire.

Sincerely,

/s/ Edward H. Braun	/s/ Don R. Kania
Edward H. Braun	Don R. Kania
Chairman and Chief Executive Officer	President and Chief Operating Officer

ACCEPTED AND AGREED:

/s/ Robert P. Oates	October 31, 2005
Robert P. Oates	Date

Additional Provisions

In the event you are terminated without "Cause" or you resign for "Good Reason" (each as defined below), the following would apply:

Severance. Veeco will pay you a salary continuation benefit equal to 18 months of your then current base salary, less applicable deductions. You will also receive a pro rata portion of the annual bonus and the long-term incentive bonus you would have received for the year and applicable period, respectively, in which termination occurs under plans in effect at the time of termination based on your and the Company's performance relative to the goals under such plans (less amounts previously paid). Such amount shall be payable with respect to the annual bonus on the same date(s) that the Company makes its annual bonus payments to employees generally with regard to such year and with respect to the long term incentive bonus, as soon as practicable. In addition, if you are enrolled in Veeco's medical and dental plans at the time of separation and elect to continue coverage under COBRA, then your contribution amount during the period in which salary continuation benefits are payable will be the normal employee (Veeco-subsidized) contribution rate.

Extended Exercise Period. The exercise period for any Veeco stock options granted to you on or after the date hereof and held by you at the time of such termination or resignation ("Options") would continue until the earlier of (x) 12 months following the date of such termination or resignation and (y) the expiration of the original term of such Options.

Vesting Acceleration. In addition, if such termination or resignation occurs within 12 months following a "Change of Control" (as defined below), (a) any unvested Options shall become immediately and fully vested and exercisable as of such date, and (b) any vesting requirements associated with the restricted shares will be deemed satisfied as of such date.

Receipt of the separation benefits described above is conditioned upon your execution (without revocation) of a general release of claims, including non-competition and non-solicitation provisions for the duration of the salary continuation period described above, in a form satisfactory to the Company. If termination occurs as a result of a change of control, the non-competition provisions shall apply to the Company as it existed pre-acquisition.

As used above, the following definitions shall apply:

"Cause" shall mean (i) your willful and substantial misconduct, (ii) your repeated, after written notice, neglect of duties or failure to perform your assigned duties, (iii) your commission of any material fraudulent act with respect to Veeco or its business, or (iv) your conviction of (or plea of no contest to) a crime constituting a felony.

"Change of Control" shall mean: (a) any person or group of persons becomes the beneficial owner of securities representing 50 percent or more of Veeco's outstanding voting securities, or (b) the approval by Veeco's stockholders of one of the following:

(i) Any merger or statutory plan of exchange (“Merger”) in which Veeco would not be the surviving corporation or pursuant to which Veeco’s voting securities would be converted into cash, securities or other property, other than a Merger in which the holders of Veeco’s voting securities immediately prior to the Merger have the same proportionate ownership of voting securities of the surviving corporation after the Merger;

(ii) Any Merger in which the holders of outstanding voting securities of Veeco prior to such Merger will not, in the aggregate, own a majority of the outstanding voting securities of the combined entity after such Merger; or

(iii) Any sale or other transfer (in one transaction or a series of related transactions) of all or substantially all of the Veeco’s assets or the adoption of any plan or proposal for Veeco’s liquidation or dissolution.

“ Good Reason ” shall mean (a) a reduction of your base salary, other than as part of a salary reduction program affecting management employees generally, (b) a material reduction in the total benefits available to you under cash incentive, stock incentive and other employee benefit plans, other than as part of a reduction in incentives or benefits affecting similarly situated employees, generally, (c) an involuntary diminution in your title, authority or responsibilities, or (d) the relocation of your primary place of work by more than 50 miles (it being understood that your decision not to relocate would not be a basis for Termination for Cause).

Please note that this letter does not alter the “at-will” nature of your employment with Veeco. This means that your employment may be terminated by you or by Veeco at any time, with or without cause. As described above, however, you may be entitled to severance benefits depending upon the circumstances of the termination of employment.

Exhibit 10.2

[LETTERHEAD]

October 31, 2005

Jeannine P. Sargent
c/o Veeco Instruments Inc.
100 Sunnyside Boulevard, Suite B
Woodbury, NY 11797

Dear Jeannine:

We are pleased to provide this letter summarizing the proposed terms of your promotion to the position of Executive Vice President, Metrology and Instrumentation. In addition, you will continue to serve as Executive Vice President, Strategic Marketing and Business Development, reporting to Ed Braun. Direction for Metrology and Instrumentation will be provided by Don Kania. The effective date of your promotion and salary increase will be October 3, 2005; the effective date of your participation in the long term incentive plan (described below) will coincide with the implementation of this plan, currently targeted to be January 1, 2006. The terms applicable to your promotion are as follows:

- Your new bi-weekly salary will be $12,115.39, which is equal to an annual salary rate of $315,000.

- You will be eligible to participate in the annual Veeco Management Bonus Plan. Your target bonus will be 60% of your base earnings for the plan year. Your 2005 bonus calculation will be based on EBITA results vs. plan, apportioned at 75% Metrology and 25% Corporate.

- You will be eligible to participate in a new long-term incentive plan. Your target bonus for this plan will be 75% of your actual annual bonus award. Awards payable under this plan will be earned over a three-year period and will be based on the achievement of performance metrics to be defined. We are currently working to finalize the terms of this plan and will present the details to you following its final approval.

- You will be granted a restricted stock award in the amount of 25,000 shares of Veeco Common Stock under the Veeco 2000 Stock Incentive Plan. These shares will be subject to restrictions that will lapse one-third, one-third and one-third on the first, second and third anniversaries of the date of grant.

This letter, together with the Additional Provisions attached hereto, sets forth the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements among the parties with respect thereto, except for any employee confidentiality and/or assignment of inventions agreements which shall continue in accordance with their terms.

Jeannine, this promotion reflects your excellent contributions to the growth of Veeco. We look forward to a long and rewarding relationship and to providing you with the challenge, responsibility and opportunity that you desire.

Sincerely,

/s/ Edward H. Braun	/s/ Don R. Kania
Edward H. Braun	Don R. Kania
Chairman and Chief Executive Officer	President and Chief Operating Officer

ACCEPTED AND AGREED:

/s/ Jeannine P. Sargent	November 2, 2005
Jeannine P. Sargent	Date

Additional Provisions

In the event you are terminated without "Cause" or you resign for "Good Reason" (each as defined below), the following would apply:

Severance. Veeco will pay you a salary continuation benefit equal to 18 months of your then current base salary, less applicable deductions. You will also receive a pro rata portion of the annual bonus and the long-term incentive bonus you would have received for the year and applicable period, respectively, in which termination occurs under plans in effect at the time of termination based on your and the Company's performance relative to the goals under such plans (less amounts previously paid). Such amount shall be payable with respect to the annual bonus on the same date(s) that the Company makes its annual bonus payments to employees generally with regard to such year and with respect to the long term incentive bonus, as soon as practicable. In addition, if you are enrolled in Veeco's medical and dental plans at the time of separation and elect to continue coverage under COBRA, then your contribution amount during the period in which salary continuation benefits are payable will be the normal employee (Veeco-subsidized) contribution rate.

Extended Exercise Period. The exercise period for any Veeco stock options granted to you on or after June 17, 2005 and held by you at the time of such termination or resignation ("Options") would continue until the earlier of (x) 12 months following the date of such termination or resignation and (y) the expiration of the original term of such Options.

Vesting Acceleration. In addition, if such termination or resignation occurs within 12 months following a "Change of Control" (as defined below), (a) any unvested Options shall become immediately and fully vested and exercisable as of such date, and (b) any vesting requirements associated with the restricted shares will be deemed satisfied as of such date.

Receipt of the separation benefits described above is conditioned upon your execution (without revocation) of a general release of claims, including non-competition and non-solicitation provisions for the duration of the salary continuation period described above, in the form attached as Annex A hereto. If termination occurs as a result of a change of control, the non-competition provisions shall apply to the Company as it existed pre-acquisition.

As used above, the following definitions shall apply:

"Cause" shall mean (i) your willful and substantial misconduct, (ii) your repeated, after written notice, neglect of duties or failure to perform your assigned duties, (iii) your commission of any material fraudulent act with respect to Veeco or its business, or (iv) your conviction of (or plea of no contest to) a crime constituting a felony.

"Change of Control" shall mean: (a) any person or group of persons becomes the beneficial owner of securities representing 50 percent or more of Veeco's outstanding voting securities, or (b) the approval by Veeco's stockholders of one of the following:

(i) Any merger or statutory plan of exchange ("Merger") in which Veeco would not be the surviving corporation or pursuant to which Veeco's voting securities would be converted into cash, securities or other property, other than a Merger in which the holders of Veeco's voting securities immediately prior to the Merger have the same proportionate ownership of voting securities of the surviving corporation after the Merger;

(ii) Any Merger in which the holders of outstanding voting securities of Veeco prior to such Merger will not, in the aggregate, own a majority of the outstanding voting securities of the combined entity after such Merger; or

(iii) Any sale or other transfer (in one transaction or a series of related transactions) of all or substantially all of the Veeco's assets or the adoption of any plan or proposal for Veeco's liquidation or dissolution.

" Good Reason " shall mean (a) a reduction of your base salary, other than as part of a salary reduction program affecting management employees generally, (b) a material reduction in the total benefits available to you under cash incentive, stock incentive and other employee benefit plans, other than as part of a reduction in benefits affecting similarly situated employees, generally, (c) an involuntary diminution in your title, authority or responsibilities, including a change in your immediate manager to a position other than the Company's Chief Executive Officer, or (d) the relocation of your primary place of work by more than 50 miles from its then current location or your then current residence (it being understood that your decision not to relocate would not be a basis for Termination for Cause).

Please note that this letter does not alter the "at-will" nature of your employment with Veeco. This means that your employment may be terminated by you or by Veeco at any time, with or without cause. As described above, however, you may be entitled to severance benefits depending upon the circumstances of the termination of employment.

Exhibit 10.3

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT (the " Agreement ") is entered into as of ___________, 2005 (the " Award Date ") by and between Veeco Instruments Inc., a Delaware corporation (the " Company ") and ____________, an employee of the Company, hereinafter referred to as the " Participant ."

WHEREAS, the Company has adopted the Veeco Instruments Inc. 2000 Stock Incentive Plan (as it may be amended from time to time, the " Plan "), the terms of which are hereby incorporated by reference and made a part of this Agreement; and

WHEREAS, Section 8 of the Plan provides for the issuance of awards of the Company's common stock, par value $0.01 per share (" Common Stock "), subject to certain restrictions (" Restricted Stock "); and

WHEREAS, the Committee defined in Section 2 of the Plan (the " Committee ") has determined that it would be to the advantage and in the best interest of the Company and its stockholders to award shares of Restricted Stock to the Participant pursuant to the terms and conditions set forth herein; and

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 In General . Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Plan. In addition, wherever the following term is used in this Agreement, it shall have the meaning specified below, unless the context clearly indicates otherwise.

Section 1.2 " Restrictions " shall mean the restrictions on sale or other transfer set forth in Section 4.2 and the exposure to forfeiture set forth in Section 3.1.

ARTICLE II.
RESTRICTED STOCK AWARD

Section 2.1 Award of Restricted Stock . In consideration of the Participant's agreement to remain in the employ of the Company, in exchange for the promises contained herein, and for other good and valuable consideration which the Committee has determined exceeds the aggregate par value of the shares of Common Stock subject to the Award (as defined below), as of the Award Date, the Company issues to the Participant the number of shares of Restricted Stock set forth on the signature page hereof (the " Award ").

Section 2.2 Award Subject to Plan . The Award granted hereunder is subject to the terms and provisions of the Plan, including without limitation Section 8 thereof.

ARTICLE III.
RESTRICTIONS

Section 3.1 Forfeiture; Repurchase Right .

(a) Unless otherwise provided by written agreement between the Company and Participant, any Award which is not vested upon the Participant's termination of employment with the Company (as determined in good faith by the Committee) shall thereupon be forfeited immediately and without any further action by the Company.

(b) Upon termination of employment of a Participant, the Company shall have the right, but not the obligation, to purchase any Restricted Stock then held by such Participant at a cash price per share equal to the price paid by the Participant for such Restricted Stock; provided that no such right of repurchase shall exist in the event of a Normal Termination (as defined in the Plan).

Section 3.2 Vesting and Lapse of Restrictions . Subject to Sections 3.1 and 3.3, the Restrictions shall lapse with respect to the Restricted Stock subject to the Award as follows:

Date:	**Restrictions Shall Lapse with Respect to:**
First Anniversary of Award Date	One-third of the Award
Second Anniversary of Award Date	One-third of the Award
Third Anniversary of Award Date	One-third of the Award

provided, in each case, that the Participant remains continuously employed in active service by the Company from the Award Date through such vesting date.

Section 3.3 Lapse of Restrictions Upon Certain Events . Notwithstanding Section 3.2, but subject to Section 3.1, in the event that Participant has entered into a written agreement with the Company prior to or concurrently with the grant of the Award hereunder which provides for the acceleration of vesting of stock options issued by the Company to Participant (a "Prior Option Agreement"), then, upon the occurrence of an event which triggers the acceleration of vesting of stock options under the Prior Option Agreement, the Award will become vested and the Restrictions with regard thereto shall lapse.

Section 3.4 Legend . Until such time as Restrictions have lapsed, the Company may, at any time, place legends referencing the Restrictions and any applicable federal and/or state securities laws restrictions on certificates representing shares of Restricted Stock issued pursuant to this Agreement. The legend may include the following:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS SET FORTH IN THE AWARD AGREEMENT BETWEEN THE CORPORATION AND THE REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION."

Section 3.5 Payment of Taxes; Issuance of Shares .

(a) Participant understands, acknowledges and agrees that the value of the Restricted Stock is subject to state and federal income taxes and certain rules which require the Company to withhold amounts necessary to pay these taxes. Participant hereby authorizes the Company to reduce the number of shares of Restricted Stock delivered to Participant at the time the restrictions lapse by the number of shares of Restricted Stock required to satisfy the tax withholding requirements (based on the fair market value of shares at such time). Such shares of Restricted Stock shall be returned to the Company. Participant's acknowledgement and acceptance of these tax withholding provisions are conditions precedent to the right of Participant to receive the Restricted Stock under the Plan and this Agreement.

(b) In lieu of the reduction of shares delivered described in paragraph (a) above, Participant may pay to the Company the amount of tax required to be withheld in cash, by check or in other form satisfactory to the Company. Such payment must be made by the date on which the Restrictions lapse or such later date as is established by the Company (not to exceed 15 days after the date on which the Restrictions lapse).

(c) The Shares will be deposited directly into Participant's brokerage account with the Company's approved broker when vested and the applicable withholding obligations have been satisfied.

Section 3.6 Certain Changes in Capitalization . If the shares of the Company's Common Stock as a whole are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company, whether through merger, consolidation, reorganization, recapitalization, reclassification, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure or the like, the Committee, in its sole discretion, shall have the discretion and power to determine and to make effective provision for acceleration of the time or times at which any Restrictions shall lapse or be removed. In addition, in the case of the occurrence of any event described in this Section 3.6, the Committee, subject to the provisions of the Plan and this Agreement, shall make an appropriate and proportionate adjustment in the number and kind of shares of Restricted Stock, to the end that after such event the Participant's proportionate interest shall be maintained as before the occurrence of such event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons. In the event that the Participant receives any new or additional or different shares or securities by reason of any transaction or event described in this Section 3.6, such new or additional or different shares or securities which are attributable to the Participant in his capacity as the registered owner of the Restricted Stock then subject to Restrictions, shall be considered to be Restricted Stock and shall be subject to all of the Restrictions.

Section 3.7 Section 83(b) Election . Participant understands that Section 83(a) of the Code taxes as ordinary income the difference between the amount, if any, paid for the shares of Common Stock and the Fair Market Value of such shares at the time the Restrictions on such shares lapse. Participant understands that, notwithstanding the preceding sentence, Participant may elect to be taxed at the time of the Award Date, rather that at the time the Restrictions lapse, by filing an election under Section 83(b) of the Code (an " 83(b) Election ") with the Internal Revenue Service within 30 days of the Award Date. In the event Participant files an 83(b) Election, Participant will recognize ordinary income in an amount equal to the difference between the amount, if any, paid for the shares of Common Stock and the Fair Market Value of such shares as of the Award Date. Participant further understands that an additional copy of such 83(b) Election form should be filed with his or her federal income tax return for the calendar year in which the date of this Agreement falls. Participant acknowledges that the foregoing is only a summary of the effect of United States federal income taxation with respect to the award of Restricted Stock hereunder, and does not purport to be complete. PARTICIPANT FURTHER ACKNOWLEDGES THAT THE COMPANY IS NOT RESPONSIBLE FOR FILING THE PARTICIPANT'S 83(b) ELECTION, AND THE COMPANY HAS DIRECTED PARTICIPANT TO SEEK INDEPENDENT ADVICE REGARDING THE APPLICABLE PROVISIONS OF THE CODE, THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FEDERAL GOVERNMENT OR FOREIGN COUNTRY IN WHICH PARTICIPANT MAY RESIDE, AND THE TAX CONSEQUENCES OF PARTICIPANT'S DEATH.

ARTICLE IV.
OTHER PROVISIONS

Section 4.1 Book Entry; Escrow . The Shares representing the Restricted Stock will be held in book-entry or global certificate form. If the Company instead chooses to issue share certificates representing the Restricted Stock, the certificates for the Restricted Stock shall be deposited in escrow with the Secretary or Assistant Secretary of the Company or such other escrow holder as the Company may appoint; *provided, however*, that in no event shall the Participant retain physical custody of any certificates representing unvested Restricted Stock issued to him. The deposited certificates shall remain in escrow until all of the Restrictions lapse or shall have been removed.

Section 4.2 Restricted Stock Not Transferable . No Restricted Stock or any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Participant or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; *provided, however*, that this Section 4.2 shall not prevent transfers by will or by applicable laws of descent and distribution.

Section 4.3 Rights as Stockholder . Except as otherwise provided herein, upon issuance of the shares of Restricted Stock pursuant to Section 4.1, the Participant shall have all the rights of a stockholder with respect to said shares, subject to the Restrictions herein, including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares or Restricted Stock; *provided, however* , that any and all shares of Common Stock received by the Participant with respect to such Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization shall also be subject to the Restrictions until the Restrictions on the underlying shares of Restricted Stock lapse or are removed pursuant to this Agreement.

Section 4.4 Not a Contract of Employment . Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries or shall interfere with or restrict in any way the rights of the Company or its Subsidiaries, which are hereby expressly reserved, to discharge the Participant at any time for any reason whatsoever, with or without cause, except as may otherwise be provided by any written agreement entered into by and between the Company and the Participant.

Section 4.5 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

Section 4.6 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the " Exchange Act "), and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission, including without limitation Rule 16b-3 under the Exchange Act. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Awards are granted, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 4.7 Amendment, Suspension and Termination. The Awards may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board , *provided* that, except as may otherwise be provided by the Plan, neither the amendment, suspension nor termination of this Agreement shall, without the consent of the Participant, alter or impair any rights or obligations under any Award.

Section 4.8 Notices. Notices required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to the Participant to his address shown in the Company records, and to the Company at its principal executive office.

Section 4.9 Severability. The invalidity or unenforceability of any paragraph or provision of this Agreement shall not affect the validity or enforceability of any other paragraph or provision, and all other provisions shall remain in full force and effect. If any provision of this Agreement is held to be excessively broad, then such provision shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

Section 4.10 Certain Provisions Applicable to Participants Employed at International Locations. The Company will assess its requirements regarding tax, social insurance and any other payroll tax ("Tax-Related Items") withholding and reporting in connection with the shares of Restricted Stock. These requirements may change from time to time as laws or interpretations change. Regardless of the actions of the Company in this regard, Participant hereby acknowledges and agrees that the ultimate liability for any and all Tax-Related Items is and remains his or her responsibility and liability and that the Company makes no representations nor undertakings regarding treatment of any Tax-Related Items in connection with any aspect of the grant of Restricted Stock and do not commit to structure the terms of the grant or any aspect of the Restricted Stock to reduce or eliminate the Participant's liability regarding Tax-Related Items. In the event that the Company must withhold any Tax-Related Items as a result of the grant or vesting of the Restricted Stock, Participant agrees to make arrangements satisfactory to the Company to satisfy all withholding requirements. Participant authorizes the Company to withhold all applicable Tax-Related Items legally due from the Participant from his or her wages or other cash compensation paid him or her by the Company.

Section 4.11 Data Privacy . By entering into this Agreement and as a condition of the grant of the Restricted Stock, Participant consents to the collection, use and transfer of personal data as described in this Section. Participant understands that the Company and its subsidiaries hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, social security number or identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all options or any other entitlement to shares of stock (restricted or otherwise) awarded, cancelled, exercised, vested, unvested or outstanding in Participant's favor, for the purpose of managing and administering the Plan ("Data"). Participant further understands that the Company and/or its subsidiaries will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of Participant's participation in the Plan, and that the Company and/or any of its subsidiaries may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan ("Data Recipients"). Participant understands that these Data Recipients may be located in the Participant's country of residence, the European Economic Area, or elsewhere throughout the world, such as the United States. Participant authorizes the Data Recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing Participant's participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan and/or the subsequent holding of shares on the Participant's behalf, to a broker or other third party with whom Participant may elect to deposit any shares of stock acquired upon vesting of the shares of Restricted Stock. Participant understands that he or she may, at any time, review the Data, require any necessary amendments to it or withdraw the consent herein in writing by contacting the Company. Withdrawal of consent may, however, affect Participant's ability to participate in the Plan.

[signature page follows]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

VEECO INSTRUMENTS INC.

By: ______________________________
Name:
Title:

Signed: ______________________________
[Participant's Typed Name]

Aggregate number of shares of Restricted Stock subject to the Award: ____________

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a – 14(a) or RULE 15d – 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Edward H. Braun, Chairman and Chief Executive Officer of Veeco Instruments Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2005 of Veeco Instruments Inc.;

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 officers 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 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 officers 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/ EDWARD H. BRAUN

Edward H. Braun
Chairman and Chief Executive Officer
Veeco Instruments Inc.
November 2, 2005

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a – 14(a) or RULE 15d – 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, John F. Rein, Jr., Executive Vice President, Chief Financial Officer and Secretary of Veeco Instruments Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2005 of Veeco Instruments Inc.;

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 officers 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 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 officers 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 F. REIN, JR.
John F. Rein, Jr.
Executive Vice President, Chief Financial Officer and Secretary
Veeco Instruments Inc.
November 2, 2005

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 Quarterly Report of Veeco Instruments Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward H. Braun, Chairman and 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/ EDWARD H. BRAUN
Edward H. Braun
Chairman and Chief Executive Officer
Veeco Instruments Inc.
November 2, 2005

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 Quarterly Report of Veeco Instruments Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Rein, Jr., Executive Vice President, Chief Financial Officer and Secretary 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 F. REIN, JR.
John F. Rein, Jr.
Executive Vice President, Chief Financial Officer
and Secretary
Veeco Instruments Inc.
November 2, 2005

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.