

VEECO INSTRUMENTS INC

FORM 10-Q (Quarterly Report)

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Telephone	516 677-0200
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Symbol	VECO
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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 June 30, 2004

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 ☐

29,667,006 shares of common stock, \$0.01 par value per share, were outstanding as of the close of business on July 29, 2004.

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 cyclicity 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 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2003.

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 (Unaudited)**

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

	Three Months Ended	
	June 30,	
	2004	2003
Net sales	\$ 102,884	\$ 73,449
Cost of sales	57,541	40,655
Gross profit	45,343	32,794
Costs and expenses:		
Selling, general and administrative expense	21,849	17,899
Research and development expense	14,578	11,708
Amortization expense	4,575	3,159
Other income, net	(355)	(22)
Restructuring expense	—	789
Operating income (loss)	4,696	(739)
Interest expense, net	2,239	1,886
Income (loss) before income taxes	2,457	(2,625)
Income tax provision (benefit)	876	(1,490)
Net income (loss)	\$ 1,581	\$ (1,135)
Net income (loss) per common share	\$ 0.05	\$ (0.04)
Diluted net income (loss) per common share	\$ 0.05	\$ (0.04)
Weighted average shares outstanding	29,649	29,247
Diluted weighted average shares outstanding	30,177	29,247

See Accompanying Notes.

	Six Months Ended June 30,	
	2004	2003
Net sales	\$ 197,371	\$ 139,228
Cost of sales	<u>112,191</u>	<u>75,228</u>
Gross profit	85,180	64,000
Costs and expenses:		
Selling, general and administrative expense	41,960	34,814
Research and development expense	28,623	23,866
Amortization expense	9,471	6,301
Other income, net	(641)	(895)
Restructuring expense	<u>—</u>	<u>1,457</u>
Operating income (loss)	5,767	(1,543)
Interest expense, net	<u>4,438</u>	<u>3,653</u>
Income (loss) before income taxes	1,329	(5,196)
Income tax provision (benefit)	<u>452</u>	<u>(2,364)</u>
Net income (loss)	<u>\$ 877</u>	<u>\$ (2,832)</u>
Net income (loss) per common share	\$ 0.03	\$ (0.10)
Diluted net income (loss) per common share	\$ 0.03	\$ (0.10)
Weighted average shares outstanding	29,608	29,236
Diluted weighted average shares outstanding	30,252	29,236

See Accompanying Notes.

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

	<u>June 30, 2004</u> (Unaudited)	<u>December 31, 2003</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 117,415	\$ 106,830
Accounts receivable, less allowance for doubtful accounts of \$2,450 in 2004 and \$2,458 in 2003	93,419	69,890
Inventories	108,073	97,622
Prepaid expenses and other current assets	10,172	15,823
Deferred income taxes	30,049	24,693
Total current assets	359,128	314,858
Property, plant and equipment at cost, less accumulated depreciation of \$68,433 in 2004 and \$62,504 in 2003	73,496	72,742
Goodwill	72,989	72,989
Purchased technology, less accumulated amortization of \$32,383 in 2004 and \$25,519 in 2003	78,985	85,849
Other intangible assets, less accumulated amortization of \$17,453 in 2004 and \$14,846 in 2003	16,689	18,842
Long-term investments	7,992	12,376
Deferred income taxes	16,071	18,136
Other assets, net	1,467	672
Total assets	<u>\$ 626,817</u>	<u>\$ 596,464</u>
Liabilities and shareholders' equity		
Current Liabilities:		
Accounts payable	\$ 28,691	\$ 19,603
Accrued expenses	46,500	31,616
Deferred profit	4,641	2,140
Income taxes payable	4,328	3,700
Current portion of long-term debt	343	333
Total current liabilities	84,503	57,392
Long-term debt, net of current portion	229,760	229,935
Other non-current liabilities	2,872	2,808
Shareholders' equity	309,682	306,329
Total liabilities and shareholders' equity	<u>\$ 626,817</u>	<u>\$ 596,464</u>

See Accompanying Notes.

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

	Six Months Ended June 30,	
	2004	2003
Operating Activities		
Net income (loss)	\$ 877	\$ (2,832)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,917	11,420
Deferred income taxes	(3,321)	(4,656)
Other	(19)	(638)
Changes in operating assets and liabilities:		
Accounts receivable	(23,984)	350
Inventories	(11,194)	3,528
Accounts payable	9,115	5,946
Accrued expenses, deferred profit and other current liabilities	18,146	(12,405)
Other, net	948	1,017
Net cash provided by operating activities	<u>6,485</u>	<u>1,730</u>
Investing Activities		
Capital expenditures	(5,934)	(4,666)
Net assets of business acquired	—	(5,980)
Proceeds from sale of assets held for sale	2,615	1,132
Proceeds from sale of property, plant and equipment	26	—
Net maturities of long-term investments	4,384	4,276
Net cash provided by (used in) investing activities	<u>1,091</u>	<u>(5,238)</u>
Financing Activities		
Proceeds from stock issuance	2,874	306
Repayment of long-term debt, net	(166)	(158)
Net cash provided by financing activities	<u>2,708</u>	<u>148</u>
Effect of exchange rates on cash and cash equivalents	301	(574)
Net change in cash and cash equivalents	10,585	(3,934)
Cash and cash equivalents at beginning of period	106,830	214,295
Cash and cash equivalents at end of period	<u>\$ 117,415</u>	<u>\$ 210,361</u>

See Accompanying Notes.

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

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 six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

Income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. The effect of common equivalent shares of approximately 528,000 and 644,000 for the three and six months ended June 30, 2004, respectively, was dilutive, therefore, diluted earnings per share is presented for these periods. The effect of common equivalent shares of approximately 233,000 and 198,000 for the three and six months ended June 30, 2003, respectively, were antidilutive, therefore diluted loss per share is not presented for these periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Weighted average shares outstanding	29,649	29,247	29,608	29,236
Dilutive effect of stock options and warrants	528	—	644	—
Diluted weighted average shares outstanding	30,177	29,247	30,252	29,236

In addition, the effect of the assumed conversion of subordinated convertible notes into approximately 5.7 million common equivalent shares is antidilutive for the three and six months ended June 30, 2004 and 2003, and therefore is not included in the above diluted weighted average shares outstanding.

The Company accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No 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 income (loss) per share if the Company had applied the fair value recognition provisions, of SFAS No. 123, *Accounting for Stock-Based Compensation*, under which compensation expense would be recognized as incurred, to stock-based employee compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Net income (loss), as reported	\$ 1,581	\$ (1,135)	\$ 877	\$ (2,832)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,073)	(4,131)	(5,928)	(8,562)
Pro forma net loss	<u>\$ (1,492)</u>	<u>\$ (5,266)</u>	<u>\$ (5,051)</u>	<u>\$ (11,394)</u>
Loss per common share:				
Net income (loss) per common share, as reported	\$ 0.05	\$ (0.04)	\$ 0.03	\$ (0.10)
Net loss per common share, pro forma	\$ (0.05)	\$ (0.18)	\$ (0.17)	\$ (0.39)
Diluted net income (loss) per common share, as reported	\$ 0.05	\$ (0.04)	\$ 0.03	\$ (0.10)
Diluted net loss per common share, pro forma	\$ (0.05)	\$ (0.18)	\$ (0.17)	\$ (0.39)

Reclassifications

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

Note 2—Balance Sheet Information

Inventories

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

	June 30, 2004	December 31, 2003
	(In thousands)	
Raw materials	\$ 53,699	\$ 49,734
Work-in-progress	39,174	31,887
Finished goods	15,200	16,001
	<u>\$ 108,073</u>	<u>\$ 97,622</u>

Accrued Warranty

The Company estimates the costs that may be incurred under its contractual warranty obligations 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 historical and anticipated rates of warranty claims and costs per claim. 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 (in thousands):

Balance as of January 1, 2004	\$ 3,904
Warranties issued during the period	2,628
Settlements made during the period	(1,523)
Balance as of June 30, 2004	<u>\$ 5,009</u>

Note 3—Segment Information

The following table represents the reportable product segments of the Company, in thousands:

	<u>Process Equipment</u>	<u>Metrology</u>	<u>Unallocated Corporate Amount</u>	<u>Restructuring Charges</u>	<u>Total</u>
Three Months Ended June 30, 2004					
Net sales	\$ 60,621	\$ 42,263	\$ —	\$ —	\$ 102,884
Income (loss) before interest, taxes and amortization	5,097	6,391	(2,217)	—	9,271
Three Months Ended June 30, 2003					
Net sales	34,280	39,169	—	—	73,449
Income (loss) before interest, taxes and amortization	1,655	4,122	(2,568)	(789)	2,420
Six Months Ended June 30, 2004					
Net sales	113,550	83,821	—	—	197,371
Income (loss) before interest, taxes and amortization	7,041	12,453	(4,256)	—	15,238
Total assets	325,801	133,139	167,877	—	626,817
Six Months Ended June 30, 2003					
Net sales	63,888	75,340	—	—	139,228
Income (loss) before interest, taxes and amortization	2,165	8,962	(4,912)	(1,457)	4,758
Total assets	\$ 174,080	\$ 135,649	\$ 289,333	\$ —	\$ 599,062

Corporate total assets are comprised principally of cash and deferred tax assets.

The following table outlines the components of goodwill by business segment at June 30, 2004 and December 31, 2003 (in thousands):

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Process Equipment	\$ 47,620	\$ 47,620
Metrology	25,369	25,369
Total	<u>\$ 72,989</u>	<u>\$ 72,989</u>

Note 4—Comprehensive Income (Loss)

The Company's comprehensive income (loss) is comprised of net income (loss), adjusted for foreign currency translation adjustments and minimum pension liability, and had no other sources affecting comprehensive income (loss). The Company had total comprehensive income (loss) of \$0.6 million and \$0.5 million for the three and six months ended June 30, 2004, respectively, and \$(0.1) million and \$(2.1) million for the three and six months ended June 30, 2003, respectively.

Note 5—Restructuring

In response to the significant decline in the business environment and market conditions in 2001 and 2002, the Company restructured its business and operations. The actions giving rise to the restructuring charges taken in 2003 described below were implemented in order for Veeco to remain competitive and such actions are expected to benefit Veeco by reducing future operating costs.

2003 Restructuring Charges

During the year ended December 31, 2003, the Company incurred a restructuring charge of approximately \$4.8 million related to the reduction in work force announced in the fourth quarter of 2002, as a result of the decline in the markets in which the Company operates. This charge included severance related costs for approximately 180 employees, which included management, administration and manufacturing employees located at the Company's Fort Collins, Colorado, and Plainview and Rochester, New York process equipment operations, the San Diego, Sunnyvale and Santa Barbara, California and Tucson, Arizona metrology facilities, the sales and service offices located in Munich, Germany and Singapore, and the corporate offices in Woodbury, New York. The charge also included costs of vacating facilities in Sunnyvale, California, Munich, Germany, and relocating the office in Japan. During the six months ended June 30, 2004, approximately \$1.3 million has been paid and approximately \$0.5 million remains accrued. The remainder is expected to be paid by the third quarter of 2005.

A reconciliation of the liability for the restructuring charge during 2003 for severance and relocation costs is as follows (in millions):

	<u>Process Equipment</u>	<u>Metrology</u>	<u>Unallocated Corporate</u>	<u>Total</u>
Charged to accrual	\$ 2.3	\$ 2.1	\$ 0.4	\$ 4.8
Add-back from 2002 accrual	0.3	—	—	0.3
Total 2003 accrual	<u>2.6</u>	<u>2.1</u>	<u>0.4</u>	<u>5.1</u>
Cash payments during 2003	1.6	1.6	0.1	3.3
Cash payments during the six months ended June 30, 2004	0.6	0.5	0.2	1.3
Balance as of June 30, 2004	<u>\$ 0.4</u>	<u>\$ 0.0</u>	<u>\$ 0.1</u>	<u>\$ 0.5</u>

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 and compound semiconductor/wireless 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, semiconductor deposition of mask reticles, and wireless/telecommunications and high brightness light emitting diode devices ("HB-LED"). Our metrology equipment is used to provide critical surface measurements on semiconductor devices and TFMHs. 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 are also key research instruments used by many universities, scientific laboratories and industrial applications.

During the past several years, we have strengthened both the metrology and process equipment product lines through strategic acquisitions. In our metrology business, in June 2003, we purchased the atomic force microscope probe business from NanoDevices Inc. ("NanoDevices") for approximately \$6.0 million, including transaction costs, plus a potential future earn-out payment of up to \$4.0 million based on the achievement of certain operating measures. In our process equipment business, in November 2003, we purchased the TurboDisc business from Emcore Corporation ("Emcore") for approximately \$63.7 million, including transaction costs, plus a potential future earn-out payment of up to \$20.0 million based on the achievement of certain operating measures. Also in November 2003, we acquired the precision bar lapping company, Advanced Imaging, Inc. ("Aii"), for approximately \$61.4 million, including transaction costs, plus a potential future earn-out payment of up to \$9.0 million based on the achievement of certain operating measures. While we believe these acquisitions will be accretive to both sales and profits going forward, gross margin percentages have been historically lower in the process equipment businesses than in the metrology business. Therefore, Veeco's gross margin percentage may be adversely affected in the future by the higher concentration of process equipment sales.

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 Second Quarter of 2004:

- Orders of \$124.7 million, up from \$64.0 million in the second quarter of 2003. The order growth included \$43.1 million from companies acquired in 2003 and \$17.6 million (27.6%) from Veeco's historical business.
- Sales of \$102.9 million, up from \$73.4 million in the second quarter of 2003. The sales growth included \$21.3 million from companies acquired in 2003 and \$8.2 million (11.1%) from Veeco's historical business.
- Return to profitability, with net income of \$1.6 million, compared with a net loss of \$1.1 million in the second quarter of 2003.
- Cash generation of \$5.6 million, compared with cash generation of \$1.8 million in the second quarter of 2003.

Highlights of the First Half of 2004:

- Orders of \$241.8 million, up from \$136.7 million in the first half of 2003. The order growth included \$79.0 million from companies acquired in 2003 and \$26.1 million (19.0%) from Veeco's historical business.
- Sales of \$197.4 million, up from \$139.2 million in the first half of 2003. The sales growth included \$40.9 million from companies acquired in 2003 and \$17.3 million (12.4%) from Veeco's historical business.
- Return to profitability, with net income of \$0.9 million, compared with a net loss of \$2.8 million in the first half of 2003.
- Cash generation of \$10.6 million, compared with cash use of \$3.9 million in the first half of 2003.

Outlook/Opportunities

In the first half of 2004, Veeco experienced a significant improvement in orders from its "information age" markets: data storage, semiconductor and compound semiconductor/wireless, driven by technology changes and increased capital expenditures across these markets. Overall, worldwide economic conditions appear to have improved. Consumer spending on many types of electronics has increased and various worldwide economies, such as those in the Asia Pacific ("APAC") region, are experiencing growth. The Company reviews a number of indicators to predict the strength of our markets going forward. These include plant utilization trends, capacity requirements, and capital spending trends. Veeco's management currently sees particular strength in its compound semiconductor/wireless business, driven by capacity expansion and MOCVD equipment purchases by HB-LED manufacturers in North America, Europe and APAC. In fact, MOCVD products represented approximately 36% of Veeco's June 2004

backlog. The data storage industry also showed strong growth for Veeco in the first half of 2004. While Veeco's long-term outlook for data storage remains quite optimistic, this business continues to experience quarterly fluctuations due to continued capital spending management by our key customers.

Technology changes are continuing in all of Veeco's markets: the continued ramp of 80 GB hard drives in data storage and investments in next generation drives (120GB); the increased use of Veeco's automated AFMs for sub 130 nanometer semiconductor applications; the opportunity for Veeco's Metal Organic Chemical Vapor Deposition ("MOCVD") and Molecular Beam Epitaxy ("MBE") 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.

Veeco expects that its business will continue to improve in 2004 as compared to 2003, both in its historical business as well as its acquired businesses. Veeco currently expects that its MOCVD and precision bar lapping technologies (acquired in November 2003) will add approximately \$100 million in revenue for 2004 compared with only a minimal contribution to Veeco's 2003 performance due to the fact that these acquisitions were consummated near the end of the 2003 year. A substantial portion of this revenue growth is coming from the MOCVD business. The transition of Veeco's lapping business from a single customer focus to a broader penetration of the data storage industry is occurring more slowly than originally estimated. There can be no assurance that Veeco's performance expectations will be realized.

Results of Operations:

Three Months Ended June 30, 2004 and 2003

The following tables show selected items of Veeco's Consolidated Statements of Operations, percentages of sales, and comparisons between the three months ended June 30, 2004 and 2003 and the analysis of sales and orders for the same periods between our segments, industries, and regions (in \$000's):

	Three Months ended June 30,				Dollar Incr/(Decr) Year to year
	2004		2003		
Net sales	\$ 102,884	100.0%	\$ 73,449	100.0%	\$ 29,435
Cost of sales	57,541	55.9	40,655	55.4	16,886
Gross profit	45,343	44.1	32,794	44.6	12,549
Operating expenses:					
Selling, general and administrative expense	21,849	21.2	17,899	24.4	3,950
Research and development expense	14,578	14.2	11,708	15.9	2,870
Amortization expense	4,575	4.4	3,159	4.3	1,416
Other income, net	(355)	(0.3)	(22)	0.0	(333)
Restructuring expenses	—	—	789	1.0	(789)
Total operating expenses	40,647	39.5	33,533	45.6	7,114
Operating income (loss)	4,696	4.6	(739)	(1.0)	5,435
Interest expense, net	2,239	2.2	1,886	2.6	353
Income (loss) before income taxes	2,457	2.4	(2,625)	(3.6)	5,082
Income tax provision (benefit)	876	0.9	(1,490)	(2.1)	2,366
Net income (loss)	\$ 1,581	1.5%	\$ (1,135)	(1.5) %	\$ 2,716

	Sales				Orders				Book to Bill Ratio	
	Three Months ended June 30,		Dollar and Percentage Incr/(Decr) Year to Year		Three Months ended June 30,		Dollar and Percentage Incr/(Decr) Year to Year		Book to Bill Ratio	
	2004	2003			2004	2003			2004	2003
Segment Analysis										
Process Equipment	\$ 60,621	\$ 34,280	\$ 26,341	76.8%	\$ 82,724	\$ 27,524	\$ 55,200	200.6%	1.36	0.80
Metrology	42,263	39,169	3,094	7.9	42,016	36,477	5,539	15.2	0.99	0.93
Total	<u>\$ 102,884</u>	<u>\$ 73,449</u>	<u>\$ 29,435</u>	<u>40.1%</u>	<u>\$ 124,740</u>	<u>\$ 64,001</u>	<u>\$ 60,739</u>	<u>94.9%</u>	<u>1.21</u>	<u>0.87</u>
Industry Analysis										
Data Storage	\$ 35,510	\$ 24,352	\$ 11,158	45.8%	\$ 26,440	\$ 19,397	\$ 7,043	36.3%	0.74	0.80
Compound Semiconductor/wireless	24,585	12,300	12,285	99.9	51,112	9,744	41,368	424.5	2.08	0.79
Semiconductor	15,517	10,780	4,737	43.9	22,258	7,249	15,009	207.0	1.43	0.67
Research and Industrial	27,272	26,017	1,255	4.8	24,930	27,611	(2,681)	(9.7)	0.91	1.06
Total	<u>\$ 102,884</u>	<u>\$ 73,449</u>	<u>\$ 29,435</u>	<u>40.1%</u>	<u>\$ 124,740</u>	<u>\$ 64,001</u>	<u>\$ 60,739</u>	<u>94.9%</u>	<u>1.21</u>	<u>0.87</u>
Regional Analysis										
US	\$ 38,247	\$ 27,539	\$ 10,708	38.9%	\$ 57,165	\$ 26,980	\$ 30,185	111.9%	1.49	0.98
Europe	18,673	13,105	5,568	42.5	13,848	10,559	3,289	31.1	0.74	0.81
Japan	15,374	15,867	(493)	(3.1)	19,066	12,466	6,600	52.9	1.24	0.79
Asia Pacific	30,590	16,938	13,652	80.6	34,661	13,996	20,665	147.6	1.13	0.83
Total	<u>\$ 102,884</u>	<u>\$ 73,449</u>	<u>\$ 29,435</u>	<u>40.1%</u>	<u>\$ 124,740</u>	<u>\$ 64,001</u>	<u>\$ 60,739</u>	<u>94.9%</u>	<u>1.21</u>	<u>0.87</u>

Net sales of \$102.9 million for the second quarter of 2004 were up 40.1% from the comparable 2003 period. By segment, process equipment sales were up \$26.3 million or 76.8%, while metrology sales increased by \$3.1 million or 7.9%. The improvement in process equipment sales is principally attributable to increases in the data storage and compound semiconductor markets. While \$21.3 million of the \$26.3 million increase is attributable to the acquisitions of the TurboDisc business and Aii, Veeco's historic process equipment business experienced a 14.8% increase in net sales in the second quarter of 2004 when compared to the second quarter of 2003. The \$3.1 million improvement in metrology sales is principally attributable to increased optical metrology sales to the scientific research market and increased automated AFM sales to the semiconductor market. By region, there continues to be a shift in sales from the U.S. to the Asia Pacific region. We are also beginning to see our customers shift manufacturing from Japan to the Asia Pacific region. Overall, all regional sales have increased due to the TurboDisc business and Aii acquisitions, except Japan, which was down 3.1% compared to the second quarter of 2003. In our Asia Pacific region sales experienced significant growth, accounting for a \$13.7 million increase in sales in the second quarter of 2004 due to the acquired companies and the manufacturing base shifts noted above. The Company believes that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Orders of \$124.7 million for the second quarter of 2004 represented an increase of \$60.7 million, or 94.9%, over the comparable 2003 period. By segment, the 200.6% improvement in process equipment orders was driven by a total of \$43.1 million in orders for TurboDisc and Aii systems plus a \$12.1 million increase in deposition and etch product orders. The 15.2% increase in metrology orders was due to an \$8.0 million increase in AFM orders, mostly automated AFM tools sold to the semiconductor business, partially offset by a \$2.5 million decrease in optical metrology products across all segments.

The Company's book/bill ratio for the second quarter of 2004, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.21. During the quarter ended June 30, 2004, the Company experienced order cancellations of \$4.2 million and the rescheduling of order delivery dates by customers. The Company's backlog as of June 30, 2004, was approximately \$164.2 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 June 30, 2004, was 44.1%, compared to 44.6% in the second quarter of 2003. This decrease was partially due to a 12.2% mix shift from the higher margin metrology segment to the lower margin process equipment segment, largely due to the 2003 acquisitions. Process equipment margins decreased from 39.4% to 36.4%. The New York data storage equipment gross margin was impacted by an unfavorable tool mix including lower margins for certain advance development products. Metrology gross margins increased from 49.9% to 55.0%. The second quarter 2004 metrology gross margin was consistent with the average 2003

metrology gross margin, but higher than the metrology gross margin for the second quarter of 2003 due to unfavorable product mix during such period.

Selling, general and administrative expenses were \$21.8 million, or 21.2% of sales in the second quarter of 2004, compared with \$17.9 million, or 24.4% in the second quarter of 2003. Of the \$4.0 million increase, \$3.0 million was due to the TurboDisc and Aii acquisitions, with the balance attributable to higher selling expenses related to the increase in sales, as well as consulting and audit costs related to the implementation of Section 404 of Sarbanes-Oxley, relocation costs and bonus accruals.

Research and development expense totaled \$14.6 million in the second quarter of 2004, an increase of \$2.9 million from the second quarter of 2003, also due to spending in the newly acquired TurboDisc and Aii divisions. As a percentage of sales, research and development decreased in the second quarter of 2004 to 14.2% from 15.9% for the second quarter of 2003.

Other income, net, of \$0.4 million for the second quarter of 2004 was due to foreign exchange gains and other items. Other income, net for the second quarter of 2003 was insignificant.

There were no restructuring expenses for the second quarter of 2004. The restructuring expense of \$0.8 million in the second quarter of 2003 was primarily due to severance costs for layoffs that were related to the actions announced in the fourth quarter of 2002.

Net interest expense in the second quarter of 2004 was \$2.2 million compared to \$1.9 million in the second quarter of 2003. The change is due to the reduction in interest income resulting from lower cash balances as a result of the cash used for acquisitions completed in the fourth quarter of 2003.

Income taxes for the quarter ended June 30, 2004, amounted to an expense of \$0.9 million, or 35.7% of income before income taxes as compared with a benefit of \$1.5 million, or 56.8% of loss before income taxes in 2003. The higher than statutory effective benefit rate in 2003 was a result of the impact of foreign and state tax benefits.

Six Months Ended June 30, 2004 and 2003

The following tables show selected items of Veeco's Consolidated Statements of Operations, percentages of sales, and comparisons between the six months ended June 30, 2004 and 2003 and the analysis of sales and orders for the same periods between our segments, industries, and regions (in \$000's):

	Six Months ended June 30,				Dollar Incr/(Decr) Year to year
	2004		2003		
Net sales	\$ 197,371	100.0%	\$ 139,228	100.0%	\$ 58,143
Cost of sales	112,191	56.8	75,228	54.0	36,963
Gross profit	85,180	43.2	64,000	46.0	21,180
Operating expenses:					
Selling, general and administrative expense	41,960	21.3	34,814	25.0	7,146
Research and development expense	28,623	14.5	23,866	17.1	4,757
Amortization expense	9,471	4.8	6,301	4.5	3,170
Other income, net	(641)	(0.3)	(895)	(0.6)	254
Restructuring expenses	—	—	1,457	1.1	(1,457)
Total operating expenses	79,413	40.3	65,543	47.1	13,870
Operating income (loss)	5,767	2.9	(1,543)	(1.1)	7,310
Interest expense, net	4,438	2.2	3,653	2.6	785
Income (loss) before income taxes	1,329	0.7	(5,196)	(3.7)	6,525
Income taxes provision (benefit)	452	0.3	(2,364)	(1.7)	2,816
Net income (loss)	\$ 877	0.4%	\$ (2,832)	(2.0) %	\$ 3,709

	Sales				Orders				Book to Bill Ratio	
	Six Months ended		Dollar and Percentage		Six Months ended		Dollar and Percentage			
	June 30,		Incr/(Decr)		June 30,		Incr/(Decr)			
	2004	2003	Year to Year		2004	2003	Year to Year			
Segment Analysis										
Process Equipment	\$ 113,549	\$ 63,888	\$ 49,661	77.7%	\$ 167,891	\$ 65,838	\$ 102,053	155.0%	1.48	1.03
Metrology	83,822	75,340	8,482	11.3	73,910	70,908	3,002	4.2	0.88	0.94
Total	<u>\$ 197,371</u>	<u>\$ 139,228</u>	<u>\$ 58,143</u>	<u>41.8%</u>	<u>\$ 241,801</u>	<u>\$ 136,746</u>	<u>\$ 105,055</u>	<u>76.8%</u>	<u>1.23</u>	<u>0.98</u>
Industry Analysis										
Data Storage	\$ 66,966	\$ 43,405	\$ 23,561	54.3%	\$ 71,388	\$ 49,097	\$ 22,291	45.4%	1.07	1.13
Compound Semiconductor/wireless	45,238	18,496	26,742	144.6	90,093	20,205	69,888	345.9	1.99	1.09
Semiconductor	28,821	22,077	6,744	30.5	32,321	19,051	13,270	69.7	1.12	0.86
Research and Industrial	56,346	55,250	1,096	2.0	47,999	48,393	(394)	(0.8)	0.85	0.88
Total	<u>\$ 197,371</u>	<u>\$ 139,228</u>	<u>\$ 58,143</u>	<u>41.8%</u>	<u>\$ 241,801</u>	<u>\$ 136,746</u>	<u>\$ 105,055</u>	<u>76.8%</u>	<u>1.23</u>	<u>0.98</u>
Regional Analysis										
US	\$ 72,705	\$ 52,643	\$ 20,062	38.1%	\$ 101,238	\$ 56,555	\$ 44,683	79.0%	1.39	1.07
Europe	32,194	25,069	7,125	28.4	26,655	19,435	7,220	37.1	0.83	0.78
Japan	34,510	31,387	3,123	9.9	35,590	30,546	5,044	16.5	1.03	0.97
Asia Pacific	57,962	30,129	27,833	92.4	78,318	30,210	48,108	159.2	1.35	1.00
Total	<u>\$ 197,371</u>	<u>\$ 139,228</u>	<u>\$ 58,143</u>	<u>41.8%</u>	<u>\$ 241,801</u>	<u>\$ 136,746</u>	<u>\$ 105,055</u>	<u>76.8%</u>	<u>1.23</u>	<u>0.98</u>

Net sales of \$197.4 million for the six months ended June 30, 2004 were up 41.8% from the comparable 2003 period. By segment, process equipment sales were up \$49.7 million or 77.7%, while metrology sales increased by \$8.5 million or 11.3%. The improvement in process equipment sales is principally attributable to increases in the data storage and compound semiconductor markets. While \$40.9 million of the \$49.7 million increase is attributable to the acquisitions of the TurboDisc business and Aii, Veeco's historic process equipment business experienced a 13.6% increase in net sales during the six months ended June 30, 2004 when compared to the corresponding period of 2003. The \$8.5 million improvement in metrology sales is principally attributable to increased optical metrology sales to the scientific research market and increased automated AFM sales to the semiconductor market. By region, there continues to be a shift in sales from the U.S. to the Asia Pacific region, although all regional sales have increased due to the TurboDisc business and Aii acquisitions, particularly the Asia Pacific region, which experienced a \$27.8 million increase in sales in the six months ended June 30, 2004 due to the acquired companies and the manufacturing base shifts noted above. The Company believes that there will continue to be period-to-period variations in the geographic distribution of sales.

Orders of \$241.8 million for the six months ended June 30, 2004 represented a \$105.1 million, or a 76.8% increase over the comparable 2003 period. By segment, the 155.0% improvement in process equipment orders was driven by a total of \$79.0 million in orders for TurboDisc and Aii systems plus a net \$23.0 million increase in deposition and etch product orders. The 4.2% improvement in metrology orders was due to a \$7.2 million increase in AFM products, mainly automated AFM orders to the semiconductor market, and was partially offset by a \$4.2 million net decrease in optical metrology products, resulting from decreases in orders from data storage and semiconductor customers.

The Company's book/bill ratio for the six months ended June 30, 2004, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.23.

Gross profit for the six months ended June 30, 2004, was 43.2%, including a \$1.5 million reduction in gross profit related to the acquisitions of TurboDisc and Aii. This charge was the result of purchase accounting adjustments due to the required capitalization of profit in inventory and the permanent elimination of certain deferred revenue. Excluding the impact of these adjustments, gross profit as a percentage of net sales was 43.9% in the six months ended June 30, 2004, compared to 46.0% in the comparable period of 2003. This decrease was mostly due to an 11.6% product mix shift from the higher margin metrology segment to the lower margin process equipment segment, largely due to the 2003 acquisitions. Excluding the purchase accounting charges described above, process equipment margins decreased from 39.2% to 36.4%. The New York data storage equipment gross margin was impacted by an unfavorable tool mix including lower margins for certain advance development products. Metrology gross margins increased from 52.1% to 54.0% during the first six

months of 2004, as compared to the same period of 2003. The metrology gross margin for the first six months of 2004 was consistent with the average 2003 metrology gross margin, but below the first six months of 2003, due to an unfavorable product mix in the first half of 2003.

Selling, general and administrative expenses were \$42.0 million, or 21.3% of sales in the six months ended June 30, 2004, compared with \$34.8 million, or 25.0% in the six months ended June 30, 2003. Of the \$7.1 million increase, \$5.6 million was due to the TurboDisc and Aii acquisitions, with the balance attributable to higher selling expenses related to the increase in sales.

Research and development expense totaled \$28.6 million during the first six months of 2004, an increase of \$4.8 million from the first six months of 2003. The increase is primarily attributable to \$3.9 million in spending in the newly acquired TurboDisc and Aii divisions. As a percentage of sales, research and development decreased during the six months ended June 30, 2004 to 14.5% from 17.1% for the corresponding period of 2003.

Other income, net, of \$0.6 million for the six months ended June 30, 2004, was principally due to foreign exchange gains and other items, compared to a gain of \$0.9 million for the six months ended June 30, 2003, which was principally from the sale of a laboratory tool.

There were no restructuring expenses during the first six months of 2004. The restructuring expense of \$1.5 million in the first six months of 2003 was primarily due to severance costs for layoffs that were related to the actions announced in the fourth quarter of 2002.

Net interest expense in the six months ended June 30, 2004 was \$4.4 million compared to \$3.7 million in the six months ended June 30, 2003. The change is due to the reduction in interest income resulting from lower cash balances as a result of the acquisitions completed in the fourth quarter of 2003.

Income taxes for the six months ended June 30, 2004, amounted to an expense of \$0.5 million, or 34.0% of income before income taxes as compared with a benefit of \$2.4 million, or 45.5% of loss before income taxes in 2003. The higher than statutory effective benefit rate in 2003 was a result of the impact of foreign and state tax benefits.

Liquidity and Capital Resources

The Company had a net increase in cash of \$10.6 million in the six months ended June 30, 2004. Cash provided by operations was \$6.5 million for this period, as compared to cash provided by operations of \$1.7 million for the comparable 2003 period. Net income adjusted for non-cash items provided operating cash flows of \$13.5 million for the six months ended June 30, 2004, compared to \$3.3 million for the comparable 2003 period. The amount of net income adjusted for non-cash items for the six months ended June 30, 2004, was partially offset by an increase in net operating assets and liabilities of \$7.0 million. Accounts receivable for the six months ended June 30, 2004, increased by \$24.0 million, primarily as a result of higher sales volume. During the six months ended June 30, 2004, inventories increased by approximately \$11.2 million, principally related to the build up of raw materials and work-in-process for products to be shipped in the third quarter of 2004. During the six months ended June 30, 2004, accounts payable increased by \$9.1 million, principally as a result of increased purchase of materials to meet shipment demand. Accrued expenses and other current liabilities increased \$18.1 million during the six months ended June 30, 2004. This increase is due to a \$10.1 million increase in customer deposits, a \$2.9 million increase in accrued salaries and benefits, accrued installation and warranty costs of \$1.4 million, accrued commissions of \$0.9 million, and other smaller items that amounted to an additional increase of \$2.8 million.

Cash provided by investing activities of \$1.1 million for the six months ended June 30, 2004, resulted from the sale of a building of \$2.6 million and the maturity of long-term investments of \$4.4 million partially offset by capital expenditures of \$5.9 million.

Cash provided by financing activities of \$2.7 million for the six months ended June 30, 2004, resulted from proceeds received from stock issuance of \$2.9 million partially offset by \$0.2 million in net repayments of long-term debt.

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Company's \$100.0 million revolving credit facility ("the 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. Amounts available for borrowing under the Facility are subject to certain financial tests. At June 30, 2004, the amount available for borrowing under the facility was approximately \$100.0 million. The Company believes it will be able to meet its obligation to repay the outstanding \$220.0 million subordinated notes that mature on December 21, 2008 through a combination of conversion of the notes outstanding, refinancing, cash generated from operations, and/or other means. The Company is required to pay interest on the outstanding convertible subordinated notes in June and December of each year until the notes mature. Based on the full outstanding value of the notes as of June 30, 2004, the semi-annual interest obligation is approximately \$4.5 million. The Company believes it will be able to meet its

obligation to pay the interest required through existing cash balances and cash generated from operations. In connection with the issuance of these notes, the Company purchased U.S government securities, to secure the first six scheduled interest payments due on the notes. The last of these securities will be used for the interest payment due in December 2004.

The Company is potentially liable for payment of earn-out provisions to the former owners of the businesses acquired in 2003 based on operating targets achieved by those acquired businesses. The maximum amount of these contingent liabilities is \$33 million consisting of \$9 million to the former shareholders of Aii, \$4 million to Nanodevices, Inc., and \$20 million to Emcore, the former owner of TurboDisc. Earn-out amounts would be paid to Nanodevices, Inc., during each of the first quarters of 2005, 2006, and 2007 if revenue targets are reached during the proceeding year, and/or upon reaching certain rolling 12-month production goals. Earn-out amounts would be paid during each of the first quarters of 2005, 2006, and 2007 to the former owners of Aii, and during each of the first quarters of 2005 and 2006 to Emcore if revenue targets are met. Payments to the former shareholders of Aii and to Emcore are based on a set percentage of revenues in excess of certain targets for the preceding fiscal year. Based on the Company's current estimates, it expects to pay approximately \$1.0 million of the amount potentially payable to Nanodevices, Inc., in 2004 and approximately \$1.5 million during the first quarter of 2005. Additionally, the Company expects to pay a substantial portion of the amount potentially liable to Emcore during the first quarter of 2005. Aside from the estimates noted herein, the Company does not have an estimate of how much, or when, amounts may be due to the former owners of Aii and Nanodevices for each fiscal year.

Application of Critical Accounting Policies

General: Veeco's discussion and analysis of its financial condition and results of operations are based upon Veeco's 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 and the impairment of long lived assets to be critical policies due to the estimation processes involved in each.

Revenue Recognition: Effective January 1, 2000, the Company changed its method for accounting for revenue recognition in accordance with Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements*. In December 2003, the SEC issued SAB No. 104, *Revenue Recognition*, which updates the guidance provided in SAB 101, integrates the related Frequently Asked Questions, and recognizes the role of the FASB's Emerging Issues Task Force ("EITF") consensus on Issue 00-21. SAB 104 deletes certain interpretive material no longer necessary, and conforms the remaining interpretative material retained to the pronouncements issued by the EITF on various revenue recognition topics, including EITF 00-21. It further clarifies that a company should first refer to EITF 00-21 in order to determine if there is more than one unit of accounting and then to refer to SAB 104 for revenue recognition for the unit of accounting. 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 and 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 June 30, 2004 and December 31, 2003, \$4.6 million and \$2.1 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. The Company provides for warranty costs at the time the related revenue is recognized.

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 if 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.

Deferred Taxes: As part of the process of preparing Veeco's consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, 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 our consolidated balance sheet. The measurement of deferred tax assets is adjusted by a valuation allowance to recognize the extent to which, more likely than not, the future tax benefits will be recognized.

At June 30, 2004, we have deferred tax assets, net of valuation allowances, of \$46.1 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.

We record valuation allowances 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. Should we determine that we are unable to use all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income tax expense, thereby reducing net income in the period such determination was made.

Item 3 . Quantitative and Qualitative Disclosures About Market Risk.

Veeco's net sales to foreign customers represented approximately 63% of Veeco's total net sales for both the three and six months ended June 30, 2004, respectively, and 62% for both the three and six months ended June 30, 2003, respectively. 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 18% and 20% of Veeco's total net sales for the three and six months ended June 30, 2004, respectively, and 22% and 26% of Veeco's total net sales for the three and six months ended June 30, 2003, respectively. The aggregate foreign currency exchange gains for the three and six months ended June 30, 2004, were \$0.1 million and \$0.3 million, respectively, compared to \$0.0 million and \$0.2 million for the three and six months ended June 30, 2003. Included in the aggregate foreign currency exchange gains were gains (losses) relating to forward contracts of \$0.0 million and \$0.2 million for the three and six months ended June 30, 2004, respectively, compared to \$(0.4) million and \$(0.5) million for the three and six months ended June 30, 2003. Veeco is exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have had the largest impact on translating Veeco's international operating profit related to exchange rates for the Japanese Yen and the Euro. To mitigate these risks, Veeco uses derivative financial instruments. Veeco does not use derivative financial instruments for speculative or trading purposes. The Company entered 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 was \$4.4 million and \$4.8 million for the three and six months ended June 30, 2004, respectively. As of June 30, 2004, the Company had entered into forward contracts for the month of July for the notional amount of approximately \$4.2 million, which approximates the fair market value on June 30, 2004. The Company entered into a forward contract on April 21, 2004, for the notional amount of \$0.5 million which approximates the fair market value on June 30, 2004. This contract will be settled on or about November 1, 2004. On April 22, 2004 the company entered into an additional forward contract for the notional amount of \$0.5 million, which approximates fair value as of June 30, 2004. This contract will be settled on or about March 1, 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.

Subsequent to that evaluation there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls after such evaluation.

Part II. Other Information

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

The annual meeting of stockholders of the Company was held on May 7, 2004. The matters voted on at the meeting were: (a) the election of three directors: (i) Heinz K. Fridrich, (ii) Roger D. McDaniel and (iii) Irwin H. Pfister; (b) approval of an amendment to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan; (c) approval of an amendment and restatement to the Veeco Instruments Inc. 2000 Stock Option Plan; and (d) ratification of the Board's appointment of Ernst & Young LLP as the independent auditors of the Company's financial statements for the year ending December 31, 2004. The terms of each of the following directors continued after the meeting: Edward H. Braun, Richard A. D'Amore, Joel A. Elftmann, Douglas A. Kingsley, Paul R. Low and Walter J. Scherr. As of the record date for the meeting, there were 29,619,290 shares of common stock outstanding, each of which was entitled to one vote with respect to each of the matters voted on at the meeting. The results of the voting were as follows:

<u>Matter</u>	<u>For</u>	<u>Withheld</u>	<u>Broker Non-Votes</u>
(a)(i)	23,762,604	571,967	
(a)(ii)	23,762,604	571,967	
(a)(iii)	23,174,917	1,159,654	

<u>Matter</u>	<u>For</u>	<u>Against</u>	<u>Abstained</u>	<u>Broker Non-Votes</u>
(b)	16,380,204	636,655	459,766	
(c)	9,374,222	7,618,626	483,777	
(d)	24,252,340	61,736	20,494	

Item 6. Exhibits and Reports on Form 8-K.**(a) 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	Amendment No. 2 to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan, effective May 7, 2004.	*
10.2	Veeco Instruments Inc. 2000 Stock Incentive Plan (formerly known as the 2000 Stock Option Plan, as amended), effective May 7, 2004.	*
31.1	Certification of Chief Executive Officer pursuant to 13a – 14(a) or Rule 15d – 14(a) of the Securities and Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to 13a – 14(a) or Rule 15d – 14(a) of the Securities and 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

(b) Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K on July 26, 2004 in connection with the issuance of its press release announcing the results for the three and six-month periods ended June 30, 2004.

The Registrant filed a Current Report on Form 8-K on July 29, 2004 in connection with the issuance of its press release announcing the appointment of Peter J. Simone to the Board of Directors on July 22, 2004.

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: August 2, 2004

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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* Filed herewith

**AMENDMENT NO. 2 TO
VEECO INSTRUMENTS INC.
FIRST AMENDED AND RESTATED
EMPLOYEE STOCK PURCHASE PLAN**

Effective on May 7, 2004

Section 3.02(a) of the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan, as amended (the "Plan"), is hereby amended to read, in its entirety, as follows:

3.02 Number of Shares Subject to Plan

(a) The total number of shares of Stock available for Offerings under the Plan shall be 2,000,000 shares, subject to adjustment as set forth in paragraph (b) below. Such Stock may be authorized and unissued shares, treasury shares, or shares previously issued and reacquired by the Company. Any shares for which an Offering to purchase expires or is terminated or canceled may again be made subject to Offerings under the Plan.

* * * * *

This Amendment was approved by Veeco's Board of Directors on March 30, 2004, and by its stockholders on May 7, 2004.

VEECO INSTRUMENTS INC.
2000 STOCK INCENTIVE PLAN
(formerly known as the 2000 STOCK OPTION PLAN, as amended)

1. Purpose

The purpose of the Plan is to provide a means through which the Company and its Affiliates may attract capable persons to enter and remain in the employ of the Company and Affiliates and to provide a means whereby employees, directors and consultants of the Company and its Affiliates can acquire and maintain Common Stock ownership, thereby strengthening their commitment to the welfare of the Company and Affiliates and promoting an identity of interest between stockholders and these employees.

The Plan provides for granting Incentive Stock Options, Nonqualified Stock Options and Restricted Stock.

2. Definitions

The following definitions shall be applicable throughout the Plan.

“Affiliate” means (i) any entity that directly or indirectly is controlled by, or is under common control with the Company, (ii) any entity in which the Company has a significant equity interest, and (iii) any Subsidiary; in each case as determined by the Committee.

“Annual Revenue” means the Company’s or a business unit’s net sales for the fiscal year, determined in accordance with generally accepted accounting principles; provided, however, that prior to the fiscal year, the Committee shall determine whether any significant item(s) shall be excluded or included from the calculation of Annual Revenue with respect to one or more Participants.

“Board” means the Board of Directors of the Company or, to the extent the Board of Directors of the Company has authorized a committee thereof to take action with respect to the Plan on its behalf, the committee so authorized.

“Cash Flow” means, as to any Fiscal Period, the operating cash flow of the Company for such Fiscal Period, provided that prior to the Fiscal Period, the Committee shall determine whether any significant item(s) shall be included or excluded from the calculation of Cash Flow with respect to one or more Participants.

“Cause” means the Company or an Affiliate having “cause” to terminate a Participant’s employment or service, as defined in any existing employment, consulting or any other agreement between the Participant and the Company or an Affiliate or, in the absence of such an employment, consulting or other agreement, upon (i) the determination by the Committee that the Participant has ceased to perform his duties to the Company or an Affiliate (other than as a result of his incapacity due to physical or mental illness or injury), which failure amounts to an intentional and extended neglect of his duties to such party, (ii) the Committee’s

determination that the Participant has engaged or is about to engage in conduct materially injurious to the Company or an Affiliate, (iii) the Participant having been convicted of, or pleaded guilty or no contest to, a felony or a crime involving moral turpitude or (iv) the failure of the Participant to follow instruction of the Board or his direct superiors.

“Change in Control, shall, unless in the case of a particular Plan Award, the applicable Plan Award Agreement states otherwise or contains a different definition of “Change in Control”, be deemed to occur upon:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (each, a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more (on a fully diluted basis) of either (A) the then outstanding shares of Common Stock, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such common stock (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of the Plan, the following acquisitions shall not constitute a Change of Control: (I) any acquisition by the Company, (II) any acquisition by any employee benefit plan sponsored or maintained by the Company or any Affiliate, (III) any acquisition by any Person which complies with clauses (A), (B) and (C) of subsection (v) of this Section 2(f), or (IV) in respect of an Award held by a particular Participant, any acquisition by the Participant or any “affiliate” (within the meaning of 17 C.F.R. §230.405) of the Participant (persons described in clauses (I), (II), and (IV) being referred to hereafter as “Excluded Persons”);

(ii) Individuals who, on the date hereof, constitute the Board (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Corporation in which such person is named as a nominee for director, without written objection to such nomination) shall be deemed to be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(iii) the dissolution or liquidation of the Company;

(iv) the sale of all or substantially all of the business or assets of the Company; or

(v) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in the transaction (a “Business Combination”), unless immediately following such

Business Combination: (A) more than 50% of the total voting power of (x) the corporation resulting from such Business Combination (the “Surviving Corporation”), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the directors of the Surviving Corporation (the “Parent Corporation”), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination), (B) no Person (other than any Excluded Person), is or becomes the beneficial owner, directly or indirectly, of 30% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors.

“Code” means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

“Committee” means a committee of at least two people as the Board may appoint to administer the Plan or, if no such committee has been appointed by the Board, the Board. Unless the Board is acting as the Committee or the Board specifically determines otherwise, each member of the Committee shall, at the time he takes any action with respect to a Plan Award under the Plan, be an Eligible Director. However, the mere fact that a Committee member shall fail to qualify as an Eligible Director shall not invalidate any Plan Award granted by the Committee which Plan Award is otherwise validly made under the Plan.

“Common Stock” means the common stock, par value \$0.01 per share, of the Company.

“Company” means Veeco Instruments Inc. With respect to the definitions of the Performance Goals, the Committee may determine that “Company” means Veeco Instruments Inc. and one or more of its Affiliates.

“Date of Grant” means the date on which the granting of a Plan Award is authorized, or such other date as may be specified in such authorization or, if there is no such date, the date indicated on the applicable Plan Award Agreement.

“Disability” means, unless in the case of a particular Plan Award, the applicable Plan Award Agreement states otherwise, the entitlement of a Participant to receive benefits under the long-term disability plan of the Company or an Affiliate, as may be applicable to the Participant in question, or, in the absence of such a plan, the complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which a Participant was employed or served when such disability commenced or, as determined by the Committee based upon medical evidence acceptable to it.

“Earnings Per Share” means as to any Fiscal Period, the Company’s Net Income divided by a weighted average number of shares of Stock outstanding and dilutive common equivalent shares of Stock deemed outstanding.

“EBITA” means Net Income before interest, taxes and amortization, each as determined under generally accepted accounting principles or as otherwise defined hereunder.

“Effective Date” means the means the date on which the Plan is approved by the Board, subject to the approval of the stockholders of the Company.

“Eligible Director” means a person who is (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, or a person meeting any similar requirement under any successor rule or regulation and (ii) an “outside director” within the meaning of Section 162(m) of the Code, and the Treasury Regulations promulgated thereunder; provided, however, that clause (ii) shall apply only with respect to grants of Plan Awards with respect to which the Company’s tax deduction could be limited by Section 162(m) of the Code if such clause did not apply.

“Eligible Person” means any (i) individual regularly employed by the Company or an Affiliate who satisfies all of the requirements of Section 6; provided, however, that no such employee covered by a collective bargaining agreement shall be an Eligible Person unless and to the extent that such eligibility is set forth in such collective bargaining agreement or in an agreement or instrument relating thereto; (ii) director of the Company or an Affiliate or (iii) consultant or advisor to the Company or an Affiliate who may be offered securities pursuant to Form S-8 (which, as of the Effective Date, includes only those who (A) are natural persons and (B) provide bona fide services to the Company or an Affiliate other than in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the Company’s securities).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fair Market Value”, on a given date means (i) if the Stock is listed on a national securities exchange, the closing price on the primary exchange with which the Stock is listed and traded on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported; (ii) if the Stock is not listed on any national securities exchange but is quoted in the National Market System of the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) on a last sale basis, the closing price reported on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which a sale was reported; or (iii) if the Stock is not listed on a national securities exchange nor quoted in the NASDAQ on a last sale basis, the amount determined by the Committee to be the fair market value based upon a good faith attempt to value the Stock accurately and computed in accordance with applicable regulations of the Internal Revenue Service.

“Fiscal Period” means the fiscal year, quarter or other period of the Company.

“Incentive Stock Option” means an Option granted by the Committee to a Participant under the Plan which is designated by the Committee as an incentive stock option as

described in Section 422 of the Code and which otherwise meets the requirements set forth herein.

“Mature Shares” means shares of Stock owned by a Participant which are not subject to any pledge or other security interest and have either been held by the Participant for six months, previously acquired by the Participant on the open market or meet such other requirements as the Committee may determine necessary in order to avoid an accounting earnings charge on account of the use of such shares to pay the Option Price or satisfy a withholding obligation in respect of a Plan Award.

“Net Income” means as to any Fiscal Period, the income after taxes of the Company for such Fiscal Period determined in accordance with generally accepted accounting principles, provided that prior to the Fiscal Period, the Committee shall determine whether any significant item(s) shall be included or excluded from the calculation of Net Income with respect to one or more Participants.

“New Orders” means as to any Fiscal Period, the firm orders for a system, product, part, or service that are recorded for such Fiscal Period.

“Non-Employee Director” means a member of the Board who is not an employee of the Company or any Affiliate.

“Nonqualified Stock Option” means an Option granted by the Committee to a Participant under the Plan which is not designated by the Committee as an Incentive Stock Option.

“Normal Termination” means termination of employment or service with the Company or an Affiliate:

- (i) on account of death or Disability;
- (ii) by the Company or such Affiliate without Cause; or
- (iii) in the case of Plan Awards granted to an Eligible Director, a resignation from or a failure to be re-elected to the Board.

“Option” means an award granted under Section 7.

“Option Period” means the period described in Section 7(d).

“Option Price” means the exercise price for an Option as described in Section 7(a).

“Original Effective Date” shall mean April 3, 2000, the date on which the Company’s 2000 Stock Option Plan was approved by the Board.

“Participant” means an Eligible Person who has been selected by the Committee to participate in the Plan and to receive a Plan Award pursuant to Section 6.

“Performance Goals” means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an award of shares of Restricted Stock. As determined by the Committee, the Performance Goals applicable to an award of shares of Restricted Stock may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Annual Revenue, (b) Cash Flow, (c) Earnings Per Share, (d) EBITA, (e) Net Income, (f) New Orders, (g) Personal Goals, (h) Return on Assets, and (i) Return on Sales. The Performance Goals may differ from Participant to Participant and from award to award. Any criteria used may be (i) measured in absolute terms, (ii) compared to another company or companies, (iii) measured against the performance of the Company as a whole or a segment of the Company and/or (iv) measured on a pre-tax or post-tax basis (if applicable).

“Personal Goals” means as to a Participant, the objective and measurable goals set by a “management by objectives” or other process and approved by the Committee (in its discretion).

“Plan” means this Veeco Instruments Inc. 2000 Stock Incentive Plan.

“Plan Award” means an award of Options or Restricted Stock as the Committee determines.

“Plan Award Agreement” means any agreement between the Company and a Participant who has been granted a Plan Award pursuant to Section 7 or 8 which defines the rights and obligations of the parties thereto.

“Restricted Stock” means an award of Common Stock subject to restrictions as provided in Section 8 of this Plan.

“Restricted Stock Agreement” means a Plan Award Agreement relating to the grant of Restricted Stock.

“Return on Assets” means as to any Fiscal Period, the Net Income of the Company divided by the average of beginning and ending assets.

“Return on Sales” means as to any Fiscal Period, the percentage equal to the Company’s Net Income or the business unit’s EBITA, divided by the Company’s or the business unit’s revenue for such Fiscal Period.

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

“Stock” means the Common Stock or such other authorized shares of stock of the Company as the Committee may from time to time authorize for use under the Plan.

“Subsidiary” means any subsidiary of the Company as defined in Section 424(f) of the Code.

3. **Effective Date and Duration**

The Plan is effective as of the Effective Date; provided that the effectiveness of the Plan and the validity of any and all Plan Awards granted pursuant to the Plan is contingent upon approval of the Plan by the shareholders of the Company in a manner intended to comply with the shareholder approval requirements of Sections 162(m) and 422(b)(i) of the Code.

The expiration date of the Plan, on and after which no Plan Awards may be granted hereunder, shall be the tenth anniversary of the Original Effective Date; provided, however, that the administration of the Plan shall continue in effect until all matters relating to Plan Awards previously granted have been settled.

4. **Administration**

The Committee shall administer the Plan. A majority of the members of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee.

(a) Subject to the provisions of the Plan and applicable law, the Committee shall have the power, in addition to other express powers and authorizations conferred on the Committee by the Plan, to: (i) designate Participants; (ii) determine the type or types of Plan Awards to be granted to a Participant; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Plan Awards; (iv) determine the terms and conditions of any Plan Awards; (v) determine whether, to what extent, and under what circumstances Plan Awards may be settled or exercised in cash, Stock, other securities, other Plan Awards or other property, or canceled, forfeited or suspended and the method or methods by which Plan Awards may be canceled, forfeited, suspended or, if applicable, settled or exercised; (vi) determine whether, to what extent, and under what circumstances cash, Stock, other securities, other Plan Awards, other property and other amounts payable with respect to a Plan Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret, administer reconcile any inconsistency, correct any default and/or supply any omission in the Plan and any instrument or agreement relating to, or Plan Award granted under, the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(b) Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Plan Award or any documents evidencing Plan Awards shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all parties, including, without limitation, the Company, any Affiliate, any Participant, any holder or beneficiary of any Plan Award, and any shareholder.

(c) Notwithstanding the above, no Committee member holding Options granted pursuant to Section 7(a)(ii) hereof may participate in any action of the Committee with respect to any claim or dispute regarding only that Committee member.

5. Grant of Awards; Shares Subject to the Plan

The Committee may, from time to time, grant Plan Awards to one or more Eligible Persons; provided, however, that:

- (a) Subject to Section 10, the aggregate number of shares of Stock in respect of which Plan Awards may be granted under the Plan shall not exceed 7,030,000, of which no more than 200,000 may be in the form of Restricted Stock;
- (b) Shares of Stock authorized under the Plan shall be deemed to have been used in settlement of Plan Awards whether or not they are actually delivered. In the event any Plan Award shall be surrendered, terminate, expire, or be forfeited, the number of shares of Stock no longer subject thereto shall thereupon be released and shall thereafter be available for new grants under the Plan;
- (c) Shares of Stock delivered by the Company in settlement of Plan Awards granted under the Plan may be authorized and unissued Stock or Stock held in the treasury of the Company or may be purchased on the open market or by private purchase;
- (d) Subject to Section 10, (i) no person may be granted Options under the Plan during any calendar year with respect to more than 300,000 shares of Stock; provided that such number shall be adjusted pursuant to Section 10 only in a manner which will not cause Options granted under the Plan to fail to qualify as “performance-based compensation” under Section 162(m) of the Code; and (ii) no person may be granted Restricted Stock under the Plan during any calendar year with respect to more than 50,000 shares of Stock; provided that, in the case of (i) above, such number shall be adjusted pursuant to Section 10 only in a manner which will not cause the Plan Awards granted under the Plan to qualify as “performance-based compensation” under Section 162(m) of the Code and in the case of Plan Awards referred to in (ii) which were intended to qualify as performance-based compensation, such number shall be adjusted as provided above.
- (e) Without limiting the generality of the preceding provisions of this Section 5, the Committee may, but solely with the Participant’s consent, agree to cancel any Plan Award under the Plan and issue a new Plan Award in substitution therefor upon such terms as the Committee may in its sole discretion determine, provided that the substituted Plan Award satisfies all applicable Plan requirements as of the date such new Award is made, provided further that, without shareholder approval, no such action may lower the exercise price of a previously granted Option.

6. Eligibility

Participation shall be limited to Eligible Persons who have received written notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in the Plan.

7. Terms of Options

(a) Option Grants.

(i) Eligible Persons. The Committee is authorized to grant one or more Incentive Stock Options or Nonqualified Stock Options to any Eligible Person; provided, however, that no Incentive Stock Options shall be granted to any Eligible Person who is not an employee of the Company or a Subsidiary. Each Option so granted shall be subject to the following conditions of this Section 7, or to such other conditions as may be reflected in the applicable Plan Award Agreement.

(ii) Eligible Directors. In addition to discretionary grants of Options pursuant to Section 7(a)(i), each Participant who is a Non-Employee Director of the Company shall receive upon initial election to office and thereafter annually on the date of the Company's annual meeting of stockholders (provided that such date is at least 6 months following such Eligible Director's initial election to office) an Option to acquire 10,000 shares of Stock at a price equal to the Fair Market Value of the shares of Stock subject to such Option on the Date of Grant.

(b) **Option Price**. The exercise price ("Option Price") per share of Stock for each Option shall be set by the Committee at the time of grant but shall not be less than the Fair Market Value of a share of Stock on the Date of Grant subject, in the case of an Incentive Stock Option, to Section 7(g).

(c) **Manner of Exercise and Form of Payment**. No shares of Stock shall be delivered pursuant to any exercise of an Option until payment in full of the aggregate exercise price therefor is received by the Company. Options which have become exercisable may be exercised by delivery of written notice of exercise to the Committee accompanied by payment of the Option Price. The Option Price shall be payable in cash and/or, at the sole discretion of the Committee, shares of Stock valued at the Fair Market Value at the time the Option is exercised (including by means of attestation of ownership of a sufficient number of shares of Stock in lieu of actual delivery of such shares to the Company), provided that such shares of Stock are Mature Shares, or, in the discretion of the Committee, either (i) in other property having a fair market value on the date of exercise equal to the Option Price, (ii) by delivering to the Committee a copy of irrevocable instructions to a stockbroker to deliver promptly to the Company an amount of loan proceeds, or proceeds of the sale of the Stock subject to the Option, sufficient to pay the Option Price or (iii) by such other method as the Committee may allow.

(d) Vesting.

(i) In General. Unless otherwise provided in a Stock Option Agreement or other written agreement between the Company and a Participant, Options shall vest and become exercisable as follows:

(x) with respect to one-third of the shares of Stock covered by the Option, on the first anniversary of the Date of Grant;

(y) with respect to an additional one-third of the shares of Stock covered by the Option, on the second anniversary of the Date of Grant;

(z) with respect to the remaining one-third of the shares of Stock covered by the Option, on the third anniversary of the Date of Grant.

Notwithstanding the foregoing, the Committee may, in its sole discretion, accelerate the exercisability of any Option, which acceleration shall not affect the terms and conditions of any such Option other than with respect to exercisability. If an Option is exercisable in installments, such installments or portions thereof which become exercisable shall remain exercisable until the Option expires.

(ii) Non-Employee Directors. Notwithstanding Section 7(d)(i), Options granted to Eligible Directors shall be immediately vested and exercisable as of the Date of Grant.

(e) **Option Period and Termination.** An Option may be exercised by the holder thereof in accordance with Section 7(d) above; provided, however, that no Option shall be exercisable later than seven years from the Date of Grant (the "Option Period"). Notwithstanding the foregoing, unless the applicable Stock Option Agreement or other written agreement between the Company and a Participant provides otherwise, an Option shall expire earlier than the end of the Option Period in the following circumstances:

(i) If prior to the end of the Option Period, the Participant shall undergo a Normal Termination, the Option shall expire on the earlier of the last day of the Option Period and the date that is three months after the date of such Normal Termination; provided, however, that any Participant whose employment with the Company or any Affiliate is terminated and who is subsequently rehired by the Company or any Affiliate prior to the expiration of the Option shall not be considered to have undergone a termination. In the event of a Normal Termination, the Option shall remain exercisable by the Participant for the period described in the first sentence of this Section 7(e)(i), only to the extent the Option was exercisable at the time of such Normal Termination.

(ii) If the Participant dies prior to the end of the Option Period and while still in the employ or service of the Company or an Affiliate, or following a Normal Termination but prior to the expiration of an Option, the Option shall expire on the earlier of the last day of the Option Period and the date that is one year after the date of death of the Participant. In such event, the Option shall remain exercisable by the person or persons to whom the Participant's rights under the Option pass by will or the applicable laws of descent and distribution until its expiration, only to the extent the Option was exercisable by the Participant at the time of death.

(iii) If the Participant ceases employment or service with the Company and Affiliates for reasons other than Normal Termination or death, the Option shall expire immediately upon such cessation of employment or service.

(f) **Other Terms and Conditions.** Except as specifically provided otherwise in a Stock Option Agreement, each Option granted under the Plan shall be subject to the following terms and conditions:

(i) Each Option or portion thereof that is exercisable shall be exercisable for the full amount of such exercisable portion or for any part thereof.

(ii) Each Option shall cease to be exercisable, as to any share of Stock, when the Participant purchases the share or when the Option expires.

(iii) Subject to Section 9(h), Options shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant.

(iv) Each Option shall vest and become exercisable by the Participant in accordance the provisions of Section 7 (d).

(v) At the time of any exercise of an Option, the Committee may, in its sole discretion, require a Participant to deliver to the Committee a written representation that the shares of Stock to be acquired upon such exercise are to be acquired for investment and not for resale or with a view to the distribution thereof. Upon such a request by the Committee, delivery of such representation prior to the delivery of any shares of Stock issued upon exercise of an Option shall be a condition precedent to the right of the Participant or such other person to purchase any such shares. In the event certificates for Stock are delivered under the Plan with respect to which such investment representation has been obtained, the Committee may cause a legend or legends to be placed on such certificates to make appropriate reference to such representation and to restrict transfer in the absence of compliance with applicable federal or state securities laws.

(vi) Each Participant awarded an Incentive Stock Option under the Plan shall notify the Company in writing immediately after the date he or she makes a disqualifying disposition of any shares of Stock acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Stock before the later of (a) two years after the Date of Grant of the Incentive Stock Option and (b) one year after the date the Participant acquired the Stock by exercising the Incentive Stock Option.

(g) **Incentive Stock Option Grants to 10% Stockholders.** Notwithstanding anything to the contrary in this Section 7, if an Incentive Stock Option is granted to a Participant who owns stock representing more than ten percent of the voting power of all classes of stock of the Company or of a Subsidiary, the Option Period shall not exceed five years from the Date of Grant of such Option and the Option Price shall be at least 110 percent of the Fair Market Value (on the Date of Grant) of the Stock subject to the Option.

(h) **\$100,000 Per Year Limitation for Incentive Stock Options.** To the extent the aggregate Fair Market Value (determined as of the Date of Grant) of Stock for which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company) exceeds \$100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options.

(i) **Voluntary Surrender.** The Committee may permit the voluntary surrender of all or any portion of any Nonqualified Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Option for the same or a different number of shares of Stock as the Option surrendered or require such voluntary surrender as a condition precedent to a grant of a new Option to such Participant. Such new Option shall be exercisable at an Option Price, during an Option Period, and in accordance with any other terms or conditions specified by the Committee at the time the new Option is granted, all determined in accordance with the provisions of the Plan without regard to the Option Price, Option Period, or any other terms and conditions of the Nonqualified Stock Option surrendered.

8. Restricted Stock

(a) Award of Restricted Stock.

(i) The Committee is authorized to award shares of Restricted Stock to any Eligible Person. Each award of Restricted Stock shall be subject to the following conditions of this Section 8, or to such other conditions as may be reflected in the applicable Restricted Stock Agreement.

(ii) The Committee shall from time to time, in its sole and absolute discretion, (A) select which Eligible Persons shall be awarded Restricted Stock, (B) determine the purchase price, if any, and form of payment for Restricted Stock; and (C) determine any other terms and conditions applicable to such Restricted Stock, consistent with this Plan.

(iii) Upon the selection of a Participant to be awarded Restricted Stock, the Committee shall instruct the Secretary of the Company to issue a certificate representing such Restricted Stock and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

(b) General Restrictions.

(i) All shares of Restricted Stock issued under this Plan (including any shares received by holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, be subject to such restrictions as the Committee shall provide, which restrictions shall be set forth in the applicable Restricted Stock Agreement and may include, without limitation, restrictions concerning voting rights and transferability and restrictions based on duration of employment with the Company, Company performance and individual performance; provided, however, that the Committee, on such terms and conditions as it determines to be appropriate, may remove any or all of the restrictions imposed by the terms of the Restricted Stock Agreement including, without limitation, upon a Change in Control. Restricted Stock may not be transferred, sold or encumbered until all restrictions terminate or expire.

(ii) The Committee, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate, in accordance with this Section 8.

(iii) The Committee may set restrictions based upon the achievement of specific performance objectives (Company-wide, divisional, or individual), applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

(c) **Section 162(m) Performance Restrictions.** For purposes of qualifying grants of Restricted Stock as “performance-based compensation” under Section 162(m) of the Code, the Committee, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the latest date permissible to enable the Restricted Stock to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Section 162(m) of the Code (e.g., in determining the Performance Goals).

(d) **Legend on Certificates.** The Committee, in its discretion, may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. For example, the Committee may determine that some or all certificates representing Shares of Restricted Stock shall bear the following legend:

“The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Veeco Instruments Inc. 2000 Stock Incentive Plan and in a Restricted Stock Agreement. A copy of the Plan and such Restricted Stock Agreement may be obtained from the Secretary of Veeco Instruments Inc.”

(e) **Termination of Employment.** Except as otherwise expressly provided for herein or in the applicable Restricted Stock Agreement, any shares of Restricted Stock which are subject to restriction at the time of an Employee’s termination of employment with the Company for any reason, or when a director’s service as director of the Company ends or when a consulting arrangement terminates, as applicable, shall be forfeited upon such termination and the Participant shall have no further rights to or with respect to such shares.

(f) **Repurchase of Restricted Stock.** The Committee shall provide in the terms of each individual Restricted Stock Agreement that upon a termination of employment of a Participant or, if applicable, upon a termination of any consulting relationship between the restricted stockholder and the Company, the Company shall have the right but not the obligation, to purchase any Restricted Stock held by such Participant or consultant at a cash price per share equal to the price paid by the Participant or consultant for such Restricted Stock; provided, however, that provision may be made that no such right of repurchase shall exist in the event of a Normal Termination or termination of consultancy without Cause.

(g) **Restricted Stock Agreement.** Restricted Stock shall be issued only pursuant to a written Restricted Stock Agreement, which shall be executed by the Participant and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

(h) **Escrow; Rights as a Stockholder.** The Secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under the Restricted Stock Agreement with respect to the shares evidenced by such certificate expire or shall have been removed. While such shares are held by the escrow holder, the Participant shall have, unless otherwise provided by the Committee and subject to the provisions of this Section 8, all the rights of a stockholder with respect to said shares, subject to any restrictions among other shareholders of Common Stock, including the right to receive all dividends and other distributions paid or made with respect to the shares represented by such certificate; provided, however, that in the discretion of the Committee, any extraordinary distributions with respect to the Common Stock shall be subject to the restrictions set forth in this Section 8.

(i) **Return of Restricted Stock to Company.** On the date set forth in the applicable Restricted Stock Agreement, the Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

9. General

(a) **Additional Provisions of a Plan Award.** Plan Awards granted to a Participant under the Plan also may be subject to such other provisions (whether or not applicable to the benefit awarded to any other Participant) as the Committee determines appropriate including, without limitation, provisions to assist the Participant in financing the purchase of shares of Stock upon the exercise of options, provisions for the forfeiture of or restrictions on resale or other disposition of shares of Stock acquired under any Plan Award, provisions giving the Company the right to repurchase shares of Stock acquired under any Plan Award in the event the Participant elects to dispose of such shares, provisions allowing the Participant to elect to defer the receipt of shares of Stock upon the exercise of Options for a specified time or until a specified event, and provisions to comply with Federal and state securities laws and Federal and state tax withholding requirements. Any such provisions shall be reflected in the applicable Plan Award Agreement.

(b) **Privileges of Stock Ownership.** Except as otherwise specifically provided in the Plan, no person shall be entitled to the privileges of ownership in respect of shares of Stock which are subject to Plan Awards hereunder until such shares have been issued to that person.

(c) **Government and Other Regulations.** The obligation of the Company to make payment of Plan Awards in shares of Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Plan Award to the contrary, the Company shall be under no obligation to issue, offer to sell or to sell and shall be prohibited from issuing, offering to sell or selling any shares of Stock pursuant to a Plan Award unless such shares have been properly registered for issuance or sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be issued, offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for issuance or sale under the Securities Act any of the shares of Stock to be issued, offered or

sold under the Plan. If the shares of Stock issued, offered for sale or sold under the Plan are issued, offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend Stock certificates representing such shares of Stock in such manner as it deems advisable to ensure the availability of any such exemption.

(d) **Tax Withholding.**

(i) A Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any shares of Stock or other property deliverable under any Plan Award or from any compensation or other amounts owing to a Participant the amount (in cash, Stock or other property) of any required tax withholding and payroll taxes in respect of the issuance, vesting or exercise of any Plan Award, or any payment or transfer under a Plan Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

(ii) Without limiting the generality of clause (i) above, the Committee may, in its sole discretion, permit a Participant to satisfy, in whole or in part, the foregoing withholding liability (but no more than the minimum required withholding liability) by (A) delivery of shares of Stock owned by the Participant (which shares must be Mature Shares) with a Fair Market Value equal to such withholding liability or (B) having the Company withhold from the number of shares of Stock otherwise issuable pursuant to the exercise of an Option or from any Restricted Stock Award a number of shares of Stock with a Fair Market Value equal to such withholding liability.

(e) **Claim to Plan Awards and Employment Rights.** No employee of the Company or any Affiliate, or other person, shall have any claim or right to be granted a Plan Award under the Plan or, having been selected for the grant of a Plan Award, to be selected for a grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ or service of the Company or any Affiliate.

(f) **No Liability of Committee Members.** No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or willful bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(g) **Governing Law.** The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof, or principals of conflicts of law of any other jurisdiction which could cause the application of the laws of any jurisdiction other than the State of Delaware.

(h) **Nontransferability.**

(i) Each Option shall be exercisable only by the Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's legal guardian or representative. No Plan Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(ii) Notwithstanding the foregoing, the Committee or its delegate may, in its sole discretion, permit Nonqualified Stock Options or Restricted Stock to be transferred by a Participant, without consideration, subject to such rules as the Committee may adopt consistent with any applicable Plan Award Agreement to preserve the purposes of the Plan, to:

(A) any person who is a "family member" of the Participant, as such term is used in the instructions to Form S-8 (collectively, the "Immediate Family Members");

(B) a trust solely for the benefit of the Participant and his or her Immediate Family Members;

(C) a partnership or limited liability company whose only partners or shareholders are the Participant and his or her Immediate Family Members; or

(D) any other transferee as may be approved either (a) by the Board or the Committee in its sole discretion, or (b) as provided in the applicable Plan Award Agreement;

(each transferee described in clauses (A), (B), (C) and (D) above is hereinafter referred to as a "Permitted Transferee"); provided that the Participant gives the Committee advance written notice describing the terms and conditions of the proposed transfer and the Committee notifies the Participant in writing that such a transfer would comply with the requirements of the Plan. For purposes of this paragraph, "delegate" shall refer to the Chief Executive Officer of the Company, except with respect to the transfer of any of Chief Executive Officer's own Plan Awards.

(iii) The terms of any Plan Award transferred in accordance with the preceding paragraph (ii) shall apply to the Permitted Transferee and any reference in the Plan, or in any applicable Plan Award Agreement, to a Participant shall be deemed to refer to the Permitted Transferee, except that (A) Permitted Transferees shall not be entitled to transfer any

Plan Awards, other than by will or the laws of descent and distribution; (B) Permitted Transferees shall not be entitled to exercise any transferred Plan Awards unless there shall be in effect a registration statement on an appropriate form covering the shares of Stock to be acquired pursuant to the exercise of such Plan Award if the Committee determines, consistent with any applicable Plan Award Agreement, that such a registration statement is necessary or appropriate, (C) the Committee or the Company shall not be required to provide any notice to a Permitted Transferee, whether or not such notice is or would otherwise have been required to be given to the Participant under the Plan or otherwise, and (D) the consequences of termination of the Participant's employment by, or services to, the Company or any Affiliate under the terms of the Plan and the applicable Plan Award Agreement shall continue to be applied with respect to the Participant, following which the Plan Awards shall be exercisable by the Permitted Transferee only to the extent, and for the periods, specified in the Plan and the applicable Plan Award Agreement.

(i) **Reliance on Reports.** Each member of the Committee and each member of the Board shall be fully justified in relying, acting or failing to act, and shall not be liable for having so relied, acted or failed to act in good faith, upon any report made by the independent public accountant of the Company and upon any other information furnished in connection with the Plan by any person or persons other than himself.

(j) **Relationship to Other Benefits.** No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company or any Affiliate, except as otherwise specifically provided in such other plan.

(k) **Expenses.** The expenses of administering the Plan shall be borne by the Company.

(l) **Pronouns.** Masculine pronouns and other words of masculine gender shall refer to both men and women.

(m) **Titles and Headings.** The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings shall control.

(n) **Termination of Employment.** For all purposes herein, a person who transfers from employment or service with the Company to employment or service with an Affiliate or vice versa, or from employment or service with one Affiliate to employment or service with another Affiliate, shall not be deemed to have terminated employment or service with the Company or any such Affiliate.

(o) **Severability .** If any provision of the Plan or any Plan Award Agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or Plan Award, or would disqualify the Plan or any Plan Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Plan Award,

such provision shall be stricken as to such jurisdiction, person or Plan Award and the remainder of the Plan and any such Plan Award shall remain in full force and effect.

10. **Changes in Capital Structure**

Plan Awards granted under the Plan and any Plan Award Agreements, the maximum number of shares of Stock subject to all Plan Awards and Incentive Stock Options stated in Section 5(a) and the maximum number of shares of Stock with respect to which any one person may be granted Plan Awards during any period stated in Section 5(d) shall be subject to adjustment or substitution, as determined by the Committee in its sole discretion, as to the number, price or kind of a share of Stock or other consideration subject to such Plan Awards or as otherwise determined by the Committee to be equitable (i) in the event of changes in the outstanding Stock or in the capital structure of the Company by reason of stock or extraordinary cash dividends, stock splits, reverse stock splits, recapitalization, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the Date of Grant of any such Plan Award or (ii) in the event of any change in applicable laws or any change in circumstances which results in or would result in any substantial dilution or enlargement of the rights granted to, or available for, Participants, or which otherwise warrants equitable adjustment because it interferes with the intended operation of the Plan. Any adjustment in Incentive Stock Options under this Section 10 shall be made only to the extent not constituting a “modification” within the meaning of Section 424(h)(3) of the Code, and any adjustments under this Section 10 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. Further, with respect to Plan Awards intended to qualify as “performance-based compensation” under Section 162(m) of the Code, such adjustments or substitutions shall be made only to the extent that the Committee determines that such adjustments or substitutions may be made without causing the Company to be denied a tax deduction on account of Section 162(m) of the Code. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

Notwithstanding the above, in the event of any of the following:

- A. The Company is merged or consolidated with another corporation or entity and, in connection therewith, consideration is received by shareholders of the Company in a form other than stock or other equity interests of the surviving entity;
- B. All or substantially all of the assets of the Company are acquired by another person;
- C. The reorganization or liquidation of the Company; or
- D. The Company shall enter into a written agreement to undergo an event described in clauses A, B or C above,

then the Committee may, in its discretion and upon at least 10 days advance notice to the affected persons, cancel any outstanding Plan Awards and pay to the holders thereof, in cash or Stock, or any combination thereof, the value of such Plan Awards based upon the price per share of Stock received or to be received by other shareholders of the Company in the event. The

terms of this Section 10 may be varied by the Committee in any particular Plan Award Agreement.

11. Effect of Change in Control

Except to the extent reflected in a particular Plan Award Agreement or other written agreement between the Company and a Participant:

(a) In the event of a Change in Control, all Plan Awards shall become immediately vested and exercisable and any restrictions applicable to shares of Restricted Stock shall terminate with respect to 100 percent of the shares subject to such Plan Award; provided, however, that no such vesting or termination shall occur if provision has been made in writing in connection with such transaction for (a) the continuation of the Plan and/or assumption of such Plan Awards by a successor corporation (or a parent or subsidiary thereof) or (b) the substitution for such Plan Awards of new options on Restricted Stock awards covering the stock of a successor corporation (or a parent or subsidiary thereof), with appropriate adjustments as to the number and kinds of shares and exercise prices. In the event of any such continuation, assumption or substitution, the Plan and/or such Plan Awards shall continue in the manner and under the terms so provided.

(b) In addition, in the event of a Change in Control, the Committee may in its discretion and upon at least 10 days' advance notice to the affected persons, cancel any outstanding Plan Awards and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Plan Awards based upon the price per share of Stock received or to be received by other shareholders of the Company in the event.

(c) The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company. The Company agrees that it will make appropriate provisions for the preservation of Participants' rights under the Plan in any agreement or plan which it may enter into or adopt to effect any such merger, consolidation, reorganization or transfer of assets.

12. Nonexclusivity of the Plan

Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

13. **Amendments and Termination**

(a) **Amendment and Termination of the Plan.** The Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without shareholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the Plan (including as necessary to prevent the Company from being denied a tax deduction on account of Section 162(m) of the Code); and provided further that any such amendment, alteration, suspension, discontinuance or termination that would impair the rights of any Participant or any holder or beneficiary of any Plan Award theretofore granted shall not to that extent be effective without the consent of the affected Participant, holder or beneficiary.

(b) **Amendment of Plan Award Agreements.** The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Plan Award theretofore granted or the associated Plan Award Agreement, prospectively or retroactively; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would impair the rights of any Participant in respect of any Plan Award theretofore granted shall not to that extent be effective without the consent of the affected Participant.

(c) **Repricing.** Notwithstanding any other provision of this Plan, no amendment or modification of the Plan or of any Stock Option Agreement may lower the exercise price of a previously granted award, nor may the Board, the Committee or the Company cancel and regrant an Option with the effect of repricing an Option, without in either case shareholder approval.

* * *

This plan was originally adopted as the “Veeco Instruments Inc. 2000 Stock Option Plan” by the Board of Directors of Veeco Instruments Inc. on April 3, 2000 and approved by the stockholders of Veeco Instruments Inc. on May 12, 2000 and later amended with the approval of the Board of Directors and the stockholders of Veeco Instruments Inc. on May 11, 2001, May 10, 2002 and May 11, 2003. On March 30, 2004, the Board of Directors approved, subject to stockholder approval, and on May 7, 2004, the stockholders of Veeco approved, an amendment and restatement of this plan, including a change in the name of this plan to the “Veeco Instruments Inc. 2000 Stock Incentive Plan.”

**CERTIFICATION PURSUANT TO
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 June 30, 2004 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 2, 2004

/s/ EDWARD H. BRAUN

Edward H. Braun
Chairman and Chief Executive Officer
Veeco Instruments Inc.

**CERTIFICATION PURSUANT TO
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 June 30, 2004 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 2, 2004

/s/ JOHN F. REIN, JR.

John F. Rein, Jr.

Executive Vice President, Chief Financial Officer
and Secretary
Veeco Instruments Inc.

**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 June 30, 2004 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.

August 2, 2004

/s/ EDWARD H. BRAUN

Edward H. Braun
Chairman and Chief Executive Officer
Veeco Instruments Inc.

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.

**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 June 30, 2004 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.

August 2, 2004

/s/ JOHN F. REIN, JR.

John F. Rein, Jr.
Executive Vice President, Chief Financial Officer,
and Secretary
Veeco Instruments Inc.

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.
