VEECO INSTRUMENTS INC

FORM 10-Q
(Quarterly Report)

Filed 10/29/08 for the Period Ending 09/30/08

Address	TERMINAL DRIVE PLAINVIEW, NY 11803
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 September 30, 2008

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)
Terminal Drive **Plainview, New York** (Address of Principal Executive Offices)	**11803** (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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

32,187,122 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on October 27, 2008.

SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Discussions containing such forward-looking statements may be found in Items 2 and 3 hereof, as well as within this Report generally. In addition, when used in this Report, the words "believes," "anticipates," "expects," "estimates," "plans," "intends," and similar expressions are intended to identify forward-looking statements. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from projected results. These risks and uncertainties include, without limitation, the following:

- The recent turmoil in the world's credit markets may have a protracted adverse impact on capital spending in the markets we serve and, as a result, could have a material adverse effect on our business and our results of operations.
- The cyclicality of the industries we serve directly affects our business.
- We operate in an industry characterized by rapid technological change.
- We face significant competition.
- We depend on a limited number of customers that operate in highly concentrated industries.
- The timing of our orders, shipments, and revenue recognition may cause our quarterly operating results to fluctuate significantly.
- Changes in our product mix may cause our quarterly operating results to fluctuate significantly.
- Our customers may cancel or reschedule their orders with us.
- Our sales cycle is long and unpredictable.
- Our outsourcing strategy could adversely affect our results of operations.
- We rely on a limited number of suppliers.
- 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.
- We are subject to foreign currency exchange risks.
- Our success depends on protection of our intellectual property rights.
- We may be subject to claims of intellectual property infringement by others.
- Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses.
- We may 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 Annual Report on Form 10-K for the year ended December 31, 2007 of Veeco Instruments Inc. ("Veeco," the "Company," or "we").

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. We do 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 Information — SEC Filings, through which investors can access our filings with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to such reports. These filings are posted to our Internet site, as soon as reasonably practicable after we electronically file such material with the SEC.

VEECO INSTRUMENTS INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net sales	$ 115,709	$ 97,718	$ 332,465	$ 295,653
Cost of sales	69,626	61,824	196,026	173,819
Gross profit	46,083	35,894	136,439	121,834
Operating expenses:				
Selling, general, and administrative expense	23,589	22,723	70,528	69,347
Research and development expense	15,302	15,049	45,173	46,341
Amortization expense	3,148	1,959	7,530	8,236
Restructuring expense	4,120	529	6,995	1,974
Asset impairment charge	—	—	285	—
Other income, net	(213)	(179)	(591)	(605)
Total operating expenses	45,946	40,081	129,920	125,293
Operating income (loss)	137	(4,187)	6,519	(3,459)
Interest expense, net	1,052	665	2,913	2,256
Gain on extinguishment of debt	—	—	—	(738)
(Loss) income before income taxes and noncontrolling interest	(915)	(4,852)	3,606	(4,977)
Income tax provision	812	954	2,860	3,490
Noncontrolling interest	(54)	(123)	(200)	(482)
Net (loss) income	$ (1,673)	$ (5,683)	$ 946	$ (7,985)
(Loss) income per common share:				
Net (loss) income per common share	$ (0.05)	$ (0.18)	$ 0.03	$ (0.26)
Diluted net (loss) income per common share	$ (0.05)	$ (0.18)	$ 0.03	$ (0.26)
Weighted average shares outstanding	31,458	31,100	31,293	30,975
Diluted weighted average shares outstanding	31,458	31,100	31,498	30,975

See accompanying notes.

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

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 117,684	$ 117,083
Accounts receivable, less allowance for doubtful accounts of $988 in 2008 and $984 in 2007	71,919	75,207
Inventories	105,659	98,594
Prepaid expenses and other current assets	7,453	8,901
Deferred income taxes	2,781	2,649
Total current assets	305,496	302,434
Property, plant, and equipment at cost, net	66,493	66,142
Goodwill	105,355	100,898
Purchased technology, less accumulated amortization of $76,563 in 2008 and $72,481 in 2007	34,470	36,107
Other intangible assets, less accumulated amortization of $34,447 in 2008 and $29,886 in 2007	27,610	23,540
Other assets	193	213
Total assets	$ 539,617	$ 529,334
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 33,358	$ 36,639
Accrued expenses	61,820	60,201
Deferred profit	4,814	3,250
Income taxes payable	1,084	2,278
Current portion of long-term debt	25,426	25,550
Total current liabilities	126,502	127,918
Deferred income taxes	4,995	3,712
Long-term debt	120,889	121,035
Other non-current liabilities	2,185	1,978
Noncontrolling interest	814	1,014
Total shareholders' equity	284,232	273,677
Total liabilities and shareholders' equity	$ 539,617	$ 529,334

See accompanying notes.

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Operating activities		
Net income (loss)	$ 946	$ (7,985)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,138	19,288
Deferred income taxes	1,260	1,111
Non-cash restructuring charge	3,018	—
Net gain on extinguishment of long-term debt	—	(738)
Non-cash compensation expense for stock options and restricted stock	5,671	3,490
Noncontrolling interest	(200)	(482)
Non-cash asset impairment charge	285	—
Gain on sale of property, plant, and equipment	(67)	(79)
Bad debt expense	4	40
Changes in operating assets and liabilities:		
Accounts receivable	6,663	19,932
Inventories	(1,703)	(4,801)
Accounts payable	(4,168)	(5,042)
Accrued expenses, deferred profit, and other current liabilities	(5,449)	524
Other, net	(1,978)	(2,481)
Net cash provided by operating activities	22,420	22,777
Investing activities		
Capital expenditures	(10,430)	(6,854)
Payments for net assets of business acquired, net of cash acquired	(10,970)	—
Proceeds from sale of property, plant, and equipment	104	311
Net cash used in investing activities	(21,296)	(6,543)
Financing activities		
Proceeds from stock issuances	681	2,781
Repayments of long-term debt	(270)	(55,407)
Payments for debt issuance costs	—	(1,503)
Restricted stock tax withholdings	(969)	(314)
Net cash used in financing activities	(558)	(54,443)
Effect of exchange rate changes on cash and cash equivalents	35	(435)
Net change in cash and cash equivalents	601	(38,644)
Cash and cash equivalents at beginning of period	117,083	147,046
Cash and cash equivalents at end of period	$ 117,684	$ 108,402
Non-cash investing and financing activities		
Accrual of earn-out payments for business acquired	$ 3,527	$ —
Exchange of convertible subordinated notes	$ —	$ 118,766
Transfers from property, plant, and equipment to inventory	$ 404	$ 473
Transfers from inventory to property, plant, and equipment	$ 385	$ 78

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 U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the three months and nine months ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Consistent with prior years, we report interim quarters, other than fourth quarters which always end on December 31, on a 13-week basis ending on the last Sunday within such period. The interim quarter ends are determined at the beginning of each year based on the 13-week quarters. The 2008 interim quarter ends are March 30, June 29, and September 28. The 2007 interim quarter ends were April 1, July 1, and September 30. For ease of reference, we report these interim quarter ends as March 31, June 30, and September 30 in our interim condensed consolidated financial statements.

Net (Loss) Income Per Common Share

The following table sets forth the reconciliation of weighted average shares outstanding and diluted weighted average shares outstanding:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Weighted average shares outstanding	31,458	31,100	31,293	30,975
Dilutive effect of stock options and restricted stock awards and units	—	—	205	—
Diluted weighted average shares outstanding	31,458	31,100	31,498	30,975

Net (loss) income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net (loss) income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding during the period.

During the three-month period ended September 30, 2008, options to purchase 5.7 million shares of common stock (at prices ranging from $0.27 to $72.00 per share) were excluded from the computation of diluted earnings per share due to the net loss sustained for the period, which caused their effect to be antidilutive. During the nine-month period ended September 30, 2008, options to purchase 4.8 million shares of common stock (at prices ranging from $16.56 to $72.00 per share), respectively, were excluded from the computation of diluted earnings per share due to exercise prices that exceeded the average market price of our common stock for the period. During the three-month and nine-month periods ended September 30, 2007, options to purchase 5.7 million shares of common stock (at prices ranging from $0.27 to $72.00 per share) in both periods were excluded from the computation of diluted earnings per share due to the net loss sustained for the period, which caused their effect to be antidilutive.

During the second quarter of 2007, we exchanged $118.8 million of our unsecured 4.125% convertible subordinated notes due December 2008 (the "Old Notes") for $117.8 million of a new series of 4.125% convertible subordinated notes (the "New Notes") due April 15, 2012. The effect on diluted shares of the assumed conversion of the Old Notes was approximately 0.7 million and 2.2 million common equivalent shares for the three months and nine months ended September 30, 2007, respectively. The converted shares were anti-dilutive and, therefore, were not included in the weighted shares outstanding for the three months and nine months ended September 30, 2007. The exchange of the Old Notes for the New Notes, together with $56 million in repurchases of Old Notes during the first quarter of 2007 reduced the effect of the assumed conversion of the Old Notes, which was calculated using the "if converted" method of accounting. For the three months and nine months ended September 30, 2008, the weighted-average effect on diluted shares of the assumed conversion of the remaining $25.2 million of Old Notes is approximately 0.7 million shares in each period.

The New Notes meet the criteria for determining the effect of the assumed conversion using the treasury stock method of accounting, as long as we have the ability and the intent to settle the principal amount in cash. Under the terms of the New Notes, we may pay the principal amount of converted New Notes in cash or in shares of common stock. We have indicated that we intend to pay such amounts in cash. Using the treasury stock method, the impact of the assumed conversion of the New Notes is anti-dilutive for the three months and nine months ended September 30, 2008 and 2007, as the average stock price was below the conversion price of $27.23 for each period. The effect of the assumed converted shares is dependent on the stock price at the time of the conversion. The maximum number of common equivalent shares issuable upon conversion is approximately 6.0 million. See Note 8 for further details on our debt.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure financial assets and liabilities (except for those that are specifically excluded from the scope of the Statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as an adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings.

Effective January 1, 2008, we adopted SFAS 157 and SFAS 159. Since we do not have any financial assets and liabilities that are required to be recorded at fair value, the only impact of these adoptions will be on the disclosures required by SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* in our Annual Report on Form 10-K for the year ending December 31, 2008.

Recent Accounting Pronouncements

On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 amends SFAS 157 to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of adopting the provisions of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)") and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51* ("SFAS 160"). Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value with limited exceptions. SFAS 141(R) also changes the accounting treatment for certain other items that relate to business combinations. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The purpose of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The most significant provisions of this statement result in changes to the presentation of noncontrolling interests in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement will impact the manner in which we present noncontrolling interests, but will not impact our consolidated financial position or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and requires comparative disclosures only for periods subsequent to initial adoption. The adoption of the provisions of SFAS 161 will not impact our consolidated financial position or results of operations.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). The guidance is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. FSP APB 14-1 will require issuers of convertible debt that can be settled in cash to separately account for (i.e. bifurcate) a portion of the debt associated with the conversion feature and reclassify this portion to stockholders' equity. The liability portion, which represents the fair value of the debt without the conversion feature, will be accreted to its face value over the life of the debt using the effective interest method, with the accretion expense recorded to interest. FSP APB 14-1 will be applied retrospectively to all periods presented. The cumulative effect of the change in accounting principle on periods prior to those presented will be recognized as of the beginning of the first period presented. We expect the adoption of FSP APB 14-1 to have a material effect on our consolidated financial position, results of operations, and earnings per share. Effective as of date of issuance of the New Notes, we will reclassify approximately $16.3 million from long-term debt to additional paid-in capital, and as of the adoption of FSP APB 14-1 in the beginning of 2009, our accumulated deficit will reflect approximately $4.8 million of debt accretion that occurred between the issuance date of the New Notes and the adoption date. Approximately $3.2 to $3.7 million of additional interest expense will be recorded annually from the adoption date through the maturity date of the convertible debt. This additional interest expense will not require the use of cash.

Note 2—Acquisition of Mill Lane Engineering

On May 22, 2008, we acquired Mill Lane Engineering Co., Inc. ("Mill Lane"), a privately held manufacturer of web coating systems for flexible solar panels, for a purchase price of $11.0 million, net of cash acquired, plus potential future earn-out payments of up to $19.0 million (representing additional purchase price) contingent upon the future achievement of certain operating performance criteria. Fees related to the acquisition were $0.7 million. Mill Lane is based in Lowell, Massachusetts and at the time of acquisition had approximately 20 employees. Mill Lane has been renamed Veeco Solar Equipment Inc. ("Veeco Solar"), and its financial results are included in our LED & Solar Process Equipment segment (see Note 5) as of the acquisition date. We have determined that this acquisition does not constitute a material business combination and therefore are not including pro forma financial statements in this report.

Note 3—Share-Based Payments

Stock Option and Restricted Stock Compensation

Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period in accordance with FASB Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ("SFAS 123(R)"). The following compensation expense was included in the condensed consolidated statements of operations for the three months and nine months ended September 30, 2008 and 2007 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Share-based compensation expense	$ 2,048	$ 1,505	$ 5,671	$ 3,490

As of September 30, 2008, the total unrecognized compensation cost related to nonvested stock awards and stock option awards is $10.6 million and $7.8 million, respectively. The related weighted average period over which we expect that such unrecognized compensation costs will be recognized as expense is approximately 2.5 years for both the nonvested stock awards and the option awards.

During the third quarter of 2008, we granted to certain key employees 14,500 shares of restricted common stock, 10,000 restricted stock units, and 61,000 stock options. The stock options will vest over a three-year period and the restricted stock awards and units will vest over a four-year period.

A summary of our restricted stock awards including restricted stock units as of and for the nine months ended September 30, 2008, is presented below:

	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at beginning of year	680	$ 19.50
Granted	384	17.30
Vested	(361)	19.67
Forfeited (including cancelled awards)	(23)	18.40
Nonvested at September 30, 2008	680	18.21

A summary of our stock option plans as of and for the nine months ended September 30, 2008, is presented below:

	Shares (000s)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000s)	Weighted-Average Remaining Contractual Life (in years)
Outstanding at beginning of year	5,672	$ 23.04		
Granted	1,226	17.35		
Exercised	(58)	11.71		
Forfeited (including cancelled options)	(1,117)	30.78		
Outstanding at September 30, 2008	5,723	20.43	$ 1,229	3.6
Options exercisable at September 30, 2008	4,114	21.45	$ 1,202	2.5

Note 4—Balance Sheet Information

Inventories

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

	September 30, 2008	December 31, 2007
Raw materials	$ 60,084	$ 58,157
Work in process	32,841	27,330
Finished goods	12,734	13,107
	$ 105,659	$ 98,594

Accrued Warranty

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

	Nine months ended September 30, 2008	2007
Balance at beginning of period	$ 6,502	$ 7,118
Warranties issued during the period	4,962	4,170
Settlements made during the period	(4,096)	(4,788)
Balance at end of period	$ 7,368	$ 6,500

Note 5—Segment Information

In 2008, we began to manage the business, review operating results and assess performance, as well as allocate resources, based upon three separate reporting segments to more accurately reflect the market focus of each business. The Light Emitting Diode ("LED") & Solar Process Equipment segment consists of the metal organic chemical vapor deposition ("MOCVD") and molecular beam epitaxy ("MBE") products primarily sold to customers in the high-brightness light emitting diode ("HB-LED"), solar, and wireless industries, as well as web coaters for flexible photovoltaic applications. This segment has production facilities in Somerset, New Jersey, St. Paul, Minnesota, and Lowell, Massachusetts. The Data Storage Process Equipment segment consists of the ion beam etch, ion beam deposition, diamond like carbon, physical vapor deposition, and dicing and slicing products (collectively, Ion Beam and Slider products) sold primarily to customers in the data storage industry. This segment has production facilities in Plainview, New York, Ft. Collins, Colorado, and Camarillo, California. The Metrology segment consists of products that are used to provide critical surface measurements on items such as semiconductor devices and thin film magnetic heads ("TFMHs"), as well as biological, nanoscience, and material science samples, and includes our broad line of atomic force microscopes, optical interferometers and stylus profilers sold to customers in the semiconductor and data storage industries and thousands of research facilities and scientific centers. This segment has production facilities in Camarillo and Santa Barbara, California and Tucson, Arizona.

Prior to 2008, we managed the business based on two segments, Process Equipment and Metrology. The Process Equipment segment combined the ion beam etch, ion beam deposition, diamond like carbon, physical vapor deposition, and dicing and slicing products with the MOCVD and MBE technologies. This change in segment composition was based upon management's view that the business segments should coincide more precisely with the markets in which each segment sells its products. The Metrology segment has remained unchanged. The prior year segment financial information presented below has been conformed to the current period presentation.

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

The following tables present certain data pertaining to our reporting segments and a reconciliation of EBITA to income (loss) before income taxes and noncontrolling interest for the three months and nine months ended September 30, 2008 and 2007, and goodwill and total assets as of September 30, 2008 and December 31, 2007 (in thousands):

	LED & Solar Process Equipment	Data Storage Process Equipment	Metrology	Unallocated Corporate Amount	Total
Three months ended September 30, 2008					
Net sales	$ 40,983	$ 43,256	$ 31,470	$ —	$ 115,709
Income (loss) before interest, taxes, amortization, and certain items (EBITA)	$ 5,477	$ 6,739	$ 45	$ (3,929)	$ 8,332
Interest expense, net	—	—	—	1,052	1,052
Amortization expense	1,587	952	495	114	3,148
Restructuring expense	—	—	437	3,683	4,120
Purchase accounting adjustment (1)	927	—	—	—	927
Income (loss) before income taxes and noncontrolling interest	$ 2,963	$ 5,787	$ (887)	$ (8,778)	$ (915)

	LED & Solar Process Equipment	Data Storage Process Equipment	Metrology	Unallocated Corporate Amount	Total
Three months ended September 30, 2007					
Net sales	$ 31,824	$ 31,099	$ 34,795	$ —	$ 97,718
Income (loss) before interest, taxes, amortization, and certain items (EBITA)	$ 3,196	$ (947)	$ (395)	$ (3,553)	$ (1,699)
Interest expense, net	—	—	—	665	665
Amortization expense	492	952	399	116	1,959
Restructuring expense	—	159	46	324	529
Income (loss) before income taxes and noncontrolling interest	$ 2,704	$ (2,058)	$ (840)	$ (4,658)	$ (4,852)
Nine months ended September 30, 2008					
Net sales	$ 128,204	$ 104,097	$ 100,164	$ —	$ 332,465
Income (loss) before interest, taxes, amortization, and certain items (EBITA)	$ 22,807	$ 10,446	$ 618	$ (11,615)	$ 22,256
Interest expense, net	—	—	—	2,913	2,913
Amortization expense	3,040	2,856	1,295	339	7,530
Restructuring expense	7	124	627	6,237	6,995
Asset impairment charge	—	—	—	285	285
Purchase accounting adjustment (1)	927	—	—	—	927
Income (loss) before income taxes and noncontrolling interest	$ 18,833	$ 7,466	$ (1,304)	$ (21,389)	$ 3,606
Nine months ended September 30, 2007					
Net sales	$ 82,188	$ 98,840	$ 114,625	$ —	$ 295,653
Income (loss) before interest, taxes, amortization, and certain items (EBITA)	$ 8,787	$ 3,055	$ 4,015	$ (9,106)	$ 6,751
Interest expense, net	—	—	—	2,256	2,256
Amortization expense	3,774	2,854	1,135	473	8,236
Restructuring expense	—	159	1,398	417	1,974
Gain on extinguishment of debt	—	—	—	(738)	(738)
Income (loss) before income taxes and noncontrolling interest	$ 5,013	$ 42	$ 1,482	$ (11,514)	$ (4,977)

	LED & Solar Process Equipment	Data Storage Process Equipment	Metrology	Unallocated Corporate Amount	Total
As of September 30, 2008					
Goodwill	$ 45,610	$ 30,377	$ 29,368	$ —	$ 105,355
Total assets	132,342	148,531	116,866	141,878	539,617
As of December 31, 2007					
Goodwill	$ 41,153	$ 30,377	$ 29,368	$ —	$ 100,898
Total assets	121,326	144,944	121,060	142,004	529,334

(1) This adjustment relates to the required capitalization of profit in inventory associated with the acquisition of Mill Lane which is included in cost of sales.

Corporate total assets are comprised principally of cash and cash equivalents at September 30, 2008 and December 31, 2007.

Note 6—Income Taxes

For the nine months ended September 30, 2008, our reserve for unrecognized tax benefits decreased by approximately $0.3 million primarily due to the expiration of the statute of limitations relating to certain foreign tax positions. As a result, we had $1.6 million of unrecognized tax benefits at September 30, 2008, all of which relate to positions taken on our foreign tax returns and represent the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods.

We or one of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state, local, and foreign jurisdictions. All material federal, state, local, and foreign income tax matters have been concluded for years through 2002 subject to subsequent utilization of net operating losses generated in such years. During the third quarter of 2008, the Internal Revenue Service initiated an examination of our Federal income tax return for the calendar year 2006. In addition, our tax returns are under examination in certain foreign jurisdictions.

We are continuing our practice of recognizing interest and penalties related to income tax matters in income tax expense. The total accrual for interest and penalties related to uncertain tax positions was approximately $0.4 million as of September 30, 2008.

Note 7—Comprehensive (Loss) Income

Total comprehensive (loss) income for the three months and nine months ended September 30, 2008 and 2007 was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net (loss) income	$ (1,673)	$ (5,683)	$ 946	$ (7,985)
Foreign currency translation (loss) gain	(555)	1,481	1,208	1,387
Total comprehensive (loss) income	$ (2,228)	$ (4,202)	$ 2,154	$ (6,598)

Note 8—Debt

Convertible Debt

During the first quarter of 2007, we repurchased $56.0 million of our Old Notes for $54.8 million, reducing the amount of the Old Notes outstanding from $200.0 million to $144.0 million. As a result of these repurchases, we recorded a net gain from the extinguishment of debt of $0.7 million.

During the second quarter of 2007, we issued New Notes pursuant to privately negotiated exchange agreements with certain holders of the Old Notes. Under these agreements, such holders agreed to exchange $118.8 million aggregate principal amount of the Old Notes for approximately $117.8 million aggregate principal amount of New Notes. No net gain or loss was recorded on the exchange transactions since the carrying value of the Old Notes including unamortized deferred financing costs approximated the exchange value of the New Notes. Following the exchange transactions, approximately $25.2 million of the Old Notes, with a conversion price of $38.51 per common share, remained outstanding. The Old Notes are due in December 2008, and we expect to pay off these notes through the use of our available cash balances.

The New Notes initially will be convertible into 36.7277 shares of common stock per $1,000 principal amount of New Notes (equivalent to a conversion price of $27.23 per share or a premium of 38% over the closing market price for our common stock on April 16, 2007). Holders may convert the New Notes at any time during the period beginning on January 15, 2012 through the close of business on the second day prior to April 15, 2012 and earlier upon the occurrence of certain events including our common stock trading at prices equal to 130% over the conversion price for a specified period.

Credit Agreement

During the third quarter of 2007, we entered into a Credit Agreement with HSBC Bank USA, National Association, as administrative agent (“HSBC”), and the lenders named therein (the “Credit Agreement”). The Credit Agreement provides for revolving credit borrowings of up to $100.0 million. As of September 30, 2008 and December 31, 2007, there were no borrowings outstanding. Interest expense associated with the credit agreement recorded during the nine months ended September 30, 2008 was $0.2 million, of which $0.1 million is included in accrued expenses as of September 30, 2008.

Note 9 — Commitments, Contingencies and Other Matters

Legal Proceedings

On August 11, 2008, we announced that we had settled the patent litigation which we had brought in 2003 in the United States District Court for the Central District of California against Asylum Research Corporation, a privately-held company founded by former Veeco employees ("Asylum"). In the lawsuit, we had alleged that the manufacture, use, and sale of Asylum's MFP-3D AFM constituted willful infringement of five patents owned by us, as well as other claims. In the settlement, Veeco and Asylum agreed to drop all pending claims against each other and agreed to a five year, worldwide cross license of each company's patents and a mutual covenant not to sue on patents either party has a right to assert. Asylum made a net payment to Veeco and will pay an ongoing royalty to Veeco for the five-year term of the cross license. As part of the settlement, Asylum acknowledged the validity of the Veeco patents asserted in the case. During the case, we capitalized legal costs incurred to defend our patents and are now amortizing these capitalized costs over the remaining lives of these patents. Payments received from Asylum have been and will continue to be netted against the capitalized legal costs upon receipt.

Restructuring Expenses

During 2007, management initiated a profit improvement plan, resulting in severance costs for approximately 90 employees, or approximately 7.5% of our employees, which included management, administration, and manufacturing employees companywide. Furthermore, we took additional measures to improve profitability, including a reduction of discretionary expenses, realignment of our sales organization to more closely match current market and regional opportunities, and consolidation of certain engineering groups within our data storage business, which included the discontinuation of two products. In conjunction with these activities, we recognized a restructuring charge of approximately $6.7 million during 2007.

During the first quarter of 2008, we consolidated our Corporate headquarters into our Plainview, New York location. As a result, we incurred an additional restructuring charge of $2.6 million, representing the remaining lease rentals and estimated property taxes for the facility we vacated, offset by the estimated expected sublease income to be received. We made certain assumptions in determining the charge, which included estimated sublease income and terms of the sublease as well as the estimated discount rate to be used in determining the fair value of the liability. We developed these assumptions based on our understanding of the current real estate market as well as current market interest rates. The assumptions were based on management's best estimates, and will be adjusted periodically if better information is obtained.

During the second quarter of 2008, we did not incur any additional restructuring charges. During the third quarter of 2008, we recorded a charge of $4.1 million, comprised of the following: $3.7 million related to a mutually agreed-upon termination of the employment agreement with Veeco's former CEO following the successful completion of the CEO transition, which included a charge of $3.0 million for the acceleration of stock-based compensation expense; personnel severance costs of $0.1 million for Metrology employees; and $0.3 million in lease-related expenses associated with the termination of the lease for a Metrology facility in Santa Barbara, California. Restructuring expenses for the three months and nine months ended September 30, 2008 and 2007 are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Lease-related costs	$ 282	$ —	$ 2,836	$ —
Personnel severance costs	820	529	1,141	1,974
Modification of equity awards	3,018	—	3,018	—
Total restructuring expense	$ 4,120	$ 529	$ 6,995	$ 1,974

The following is a reconciliation of the liability for the restructuring charge from inception through September 30, 2008 (in thousands):

	LED & Solar Process Equipment	Data Storage Process Equipment	Metrology	Unallocated Corporate	Total
Short-Term Liability					
2007 Activity					
Personnel severance charges	$ 34	$ 658	$ 1,153	$ 2,469	$ 4,314
Purchase order commitments	—	1,840	—	—	1,840
Total charged to accrual (1)	34	2,498	1,153	2,469	6,154
Cash payments	(17)	(435)	(751)	(633)	(1,836)
Balance as of December 31, 2007	17	2,063	402	1,836	4,318
2008 Activity					
Lease-related costs	—	—	282	971	1,253
Personnel severance charges	7	124	344	666	1,141
Total charged to accrual (2)	7	124	626	1,637	2,394
Short-term/long-term reclassification	—	—	—	25	25
Cash payments	(15)	(2,069)	(780)	(2,369)	(5,233)
Balance as of September 30, 2008	$ 9	$ 118	$ 249	$ 1,128	$ 1,504
Long-Term Liability					
2008					
Lease-related costs	$ —	$ —	$ —	$ 1,583	$ 1,583
Short-term/long-term reclassification	—	—	—	(25)	(25)
Other adjustments	—	—	—	(172)	(172)
Balance as of September 30, 2008	$ —	$ —	$ —	$ 1,386	$ 1,386

(1) In 2007, a charge of $0.6 million for the modification of stock options was recorded as part of a termination agreement with each of five key employees as an increase to additional paid-in capital.

(2) In 2008, a charge of $3.0 million for the acceleration of equity awards was recorded as part of a mutually agreed upon termination with our former CEO (who currently remains as Chairman of the Board of Directors) as an increase to additional paid-in capital.

The balance of the restructuring accrual is expected to be paid over the next thirty-three months, or the remaining life of the lease for the former Corporate headquarters. Given the recent change in business climate, management is currently evaluating various cost cutting actions, and it is likely that we will incur restructuring charges in the fourth quarter, depending upon the timing and extent of actions under consideration. We are not able to estimate the extent of these charges at this time.

In addition to restructuring expenses, during the first quarter of 2008, we recorded a $0.3 million asset impairment charge associated with property and equipment abandoned as part of the consolidation of our Corporate headquarters into our Plainview facility.

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

Executive Summary

We design, manufacture, market, and service enabling solutions for customers in the HB-LED, solar, data storage, semiconductor, scientific research and industrial markets. We have leading technology positions in our three businesses: LED & Solar Process Equipment, Data Storage Process Equipment, and Metrology.

Our LED & Solar Process Equipment products, which include MOCVD and MBE technologies, and web coaters for flexible photovoltaic applications, are used in the manufacturing of HB-LEDs and wireless devices (such as power amplifiers) and solar panels. Our Data Storage Process Equipment products, which include ion beam etch and deposition, physical vapor deposition and other technologies, are used primarily in the manufacturing of TFMHs for the data storage industry. Our Metrology equipment includes atomic force microscopes ("AFMs"), scanning probe microscopes ("SPMs"), optical interferometers, and stylus profilers, and is used to provide critical surface measurements in research and production environments. In production, our equipment allows customers, such as those in semiconductor and data storage, to monitor their products throughout the manufacturing process in order to improve yields, reduce costs, and improve product quality. Our instruments are also sold to thousands of universities, research facilities and scientific centers worldwide to enable a variety of nanotechnology related research.

We currently maintain facilities in Arizona, California, Colorado, Minnesota, New Jersey, New York, and Massachusetts, with sales and service locations in North America, Europe, Japan, and the Asia Pacific region.

During 2007, management established a profit improvement plan, resulting in a 7.5% reduction in our employment levels, a reduction of discretionary expenses, the realignment of our sales organization to match more closely market and regional opportunities, consolidation of our Corporate headquarters, and the consolidation of certain engineering groups within our Data Storage Process Equipment business, which included the discontinuation of two products. In conjunction with these activities, we recognized a restructuring charge of approximately $6.7 million during the year ended December 31, 2007, as well as an inventory write-off of $4.8 million and an asset impairment charge of $1.1 million. During the nine months ended September 30, 2008, we incurred additional restructuring charges of $7.0 million and asset impairment charges of $0.3 million, discussed further in Results of Operations below. Through the first nine months of 2008, we have seen the positive impact of these restructuring activities on the Company's operating expenses.

Highlights of the Third Quarter of 2008

- Revenue was $115.7 million, an 18% increase over the third quarter of 2007.
- Orders were $90.2 million, down 24% from the third quarter of 2007.
- Net loss was ($1.7) million, or ($0.05) per share, compared to net loss of ($5.7) million, or ($0.18) per share, in the third quarter of 2007.
- Gross margins were 39.8%, compared to 36.7% in the third quarter of 2007.

Highlights of the First Nine Months of 2008

- Revenue was $332.5 million, a 12% increase over the comparable 2007 period.
- Orders were $335.9 million, consistent with the comparable 2007 period.
- Net income was $0.9 million, or $0.03 per share, compared to a net loss of ($8.0) million, or ($0.26) per share, in the comparable 2007 period.
- Gross margins were 41.0%, compared to 41.2% in 2007.

Outlook

For the first nine months of 2008, the Company has reported a meaningful recovery year in both revenue growth and profitability. While Veeco has delivered strong revenue growth and profit improvement in 2008, in the third quarter we experienced a deterioration in business conditions with a sharp decline in orders of MOCVD systems as the HB-LED industry digests the significant number of new tools purchased this past year, and the global credit crisis caused customers to delay or forego capacity and technology purchases. Third quarter orders of $90.2 million were significantly below our prior expectations, and the Company also experienced some push-outs and cancellations of equipment purchases.

While the Company has a healthy prospect list for new orders in the fourth quarter, it appears that the global economic climate and constrained financing environment may cause a broad slowdown in capital equipment purchases by our customers, with uncertainty as to the depth and duration of the downturn. Due to this limited visibility, we are unable to give an accurate assessment of fourth quarter orders, and we currently anticipate order rates to come under pressure for the foreseeable future. Veeco estimates that its revenues for the fourth quarter of 2008 will be $110-$118 million.

The Company is taking corrective actions to lower our cost structure in preparation for what is likely to be a reduced revenue year in 2009. Our goal is to lower our spending while maintaining strategic investments in research and development, particularly in our LED & Solar business. It is our intent to emerge from the present economic environment in a strong position to enable future revenue and profit growth. Since the Company is currently evaluating various cost cutting actions, it is likely that Veeco will incur restructuring charges in the fourth quarter, depending upon the timing and extent of actions under consideration. We are not able to estimate the extent of these charges at this time.

Despite the recent deteriorating business conditions, Veeco has forecasted revenues in the range of $440 to $450 million in 2008, up approximately 10% from the $402.5 million reported in 2007, as well as a meaningful profit improvement as compared to 2007. The Company believes that it is well-positioned to capitalize on exciting multi-year technology trends across our LED & Solar, Data Storage and Metrology businesses, and we have made significant progress this year in refocusing our businesses and improving our performance. We have a strong balance sheet and positive cash flow, and we expect at this time that we can manage Veeco through the global economic crisis while maintaining our commitment to R&D to ensure our long-term growth and success.

Veeco will remain focused on executing our core strategies to improve the Company's performance:

- Directing Veeco's resources to the best growth opportunities;
- Strengthening the global sales and services organization;
- Maximizing profitability through a continued focus on gross margin improvement and cost containment activities;
- Ensuring that each of Veeco's product businesses, LED & Solar Process Equipment, Data Storage Process Equipment, and Metrology, are executing well; and
- Improving Veeco's business processes to maximize effectiveness, predictability and profitability.

Results of Operations:

Three Months Ended September 30, 2008 and 2007

Consistent with prior years, we report interim quarters, other than fourth quarters, which always end on December 31, on a 13-week basis ending on the last Sunday within such period. The interim quarter ends are determined at the beginning of each year based on the 13-week quarters. The 2008 interim quarter ends are March 30, June 29 and September 28. The 2007 interim quarter ends were April 1, July 1 and September 30. For ease of reference, we report these interim quarter ends as March 31, June 30, and September 30 in our interim condensed consolidated financial statements.

The following table shows our Consolidated Statements of Operations, percentages of sales, and comparisons between the three months ended September 30, 2008 and 2007 (dollars in thousands):

	Three Months Ended September 30,				Dollar and Percentage Change	
	2008		2007			
Net sales	$ 115,709	100.0%	$ 97,718	100.0%	$ 17,991	18.4%
Cost of sales	69,626	60.2	61,824	63.3	7,802	12.6
Gross profit	46,083	39.8	35,894	36.7	10,189	28.4
Operating expenses:						
Selling, general, and administrative expense	23,589	20.4	22,723	23.3	866	3.8
Research and development expense	15,302	13.2	15,049	15.4	253	1.7
Amortization expense	3,148	2.7	1,959	2.0	1,189	60.7
Restructuring expense	4,120	3.6	529	0.5	3,591	678.8
Other income, net	(213)	(0.2)	(179)	(0.2)	34	19.0
Total operating expenses	45,946	39.7	40,081	41.0	5,865	14.6
Operating income (loss)	137	0.1	(4,187)	(4.3)	4,324	103.3
Interest expense, net	1,052	0.9	665	0.7	387	58.2
Loss before income taxes and noncontrolling interest	(915)	(0.8)	(4,852)	(5.0)	(3,937)	(81.1)
Income tax provision	812	0.6	954	0.9	(142)	(14.9)
Noncontrolling interest	(54)	(0.0)	(123)	(0.1)	(69)	(56.1)
Net loss	$ (1,673)	(1.4)%	$ (5,683)	(5.8)%	$ 4,010	(70.6)%

Net Sales and Orders

Net sales of $115.7 million for the three months ended September 30, 2008 were up 18.4% compared to the comparable 2007 quarter. The following is an analysis of sales and orders by segment and by region (dollars in thousands):

	Sales				Orders					
	Three Months Ended September 30,		Dollar and Percentage Change Year to Year		Three Months Ended September 30,		Dollar and Percentage Change Year to Year		Book-to-Bill Ratio	
	2008	2007			2008	2007			2008	2007
Segment Analysis										
LED & Solar Process Equipment	$ 40,983	$ 31,824	$ 9,159	28.8%	$ 25,775	$ 48,679	$ (22,904)	(47.1)%	0.63	1.53
Data Storage Process Equipment	43,256	31,099	12,157	39.1	32,359	32,239	120	0.4	0.75	1.04
Metrology	31,470	34,795	(3,325)	(9.6)	32,031	37,399	(5,368)	(14.4)	1.02	1.07
Total	$ 115,709	$ 97,718	$ 17,991	18.4%	$ 90,165	$ 118,317	$ (28,152)	(23.8)%	0.78	1.21
Regional Analysis										
North America	$ 38,865	$ 29,014	$ 9,851	34.0%	$ 31,256	$ 48,196	$ (16,940)	(35.1)%	0.80	1.66
Europe	28,578	18,244	10,334	56.6	22,650	22,220	430	1.9	0.79	1.22
Japan	6,604	12,585	(5,981)	(47.5)	7,769	12,330	(4,561)	(37.0)	1.18	0.98
Asia Pacific	41,662	37,875	3,787	10.0	28,490	35,571	(7,081)	(19.9)	0.68	0.94
Total	$ 115,709	$ 97,718	$ 17,991	18.4%	$ 90,165	$ 118,317	$ (28,152)	(23.8)%	0.78	1.21

By segment, LED & Solar Process Equipment sales were up 28.8% due to an increase in end user demand from expanding applications for HB-LEDs, strong customer acceptance of Veeco's newest generation systems, and $5.0 million in sales from the solar equipment product line, which was acquired in the second quarter of 2008 as a result of the Mill Lane acquisition. Additionally, Data Storage Process Equipment sales were up 39.1%, primarily as a result of customers' technology and capacity requirements. These increases were partially offset by a decrease in Metrology sales of 9.6%, primarily due to a slowdown in the semiconductor and research and industrial markets. By region, net sales increased by 34.0%, 56.6% and 10.0% in North America, Europe, and Asia Pacific, respectively, and decreased by 47.5% in Japan. We believe that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Orders for the third quarter of 2008 decreased by 23.8% from the comparable 2007 period. By segment, the 47.1% decrease in orders for LED & Solar Process Equipment was a result of the HB-LED industry's slower absorption of the significant number of new MOCVD tools purchased during the past two years. Additionally, the global credit crisis has caused customers to delay or forego capacity and technology purchases. The 14.4% decrease in Metrology orders was due to decreased orders for AFM products due to lower demand in the semiconductor and research and industrial markets. Data Storage Process Equipment orders remained flat when compared to the 2007 period.

Our book-to-bill ratio for the third quarter of 2008, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 0.78 to 1. Our backlog as of September 30, 2008 was $176.0 million, compared to $173.5 million as of December 31, 2007. During the quarter ended September 30, 2008, we experienced a decrease in backlog of $9.7 million primarily from order cancellations. The outlook for orders in the fourth quarter is uncertain, and it appears that the global economic climate and constrained financing environment may cause a broad slowdown in capital equipment purchases by our customers. Due to these changing business conditions and weak capital equipment spending by customers in our business, as well as the global credit crisis, we expect to experience continued volatility in the form of cancellations and/or rescheduled orders.

Gross Profit

Gross profit for the quarter ended September 30, 2008, was 39.8%, compared to 36.7% in the third quarter of 2007 primarily due to strong performance in Process Equipment. Data Storage Process Equipment gross margins increased from 33.5% in the prior-year period to 39.8%, primarily from an increase in sales volume due to increased capacity spending, a favorable product mix and favorable pricing when compared to the prior comparable period, and cost reductions resulting from management's profit improvement plan, introduced in the fourth quarter of 2007. LED & Solar Process Equipment gross margins increased from 33.4% in the prior-year period to 36.0%, primarily due to an increase in sales volume, as well as a favorable product mix, as compared to the prior-year period. The current-year period includes a reduction in gross profit of $0.9 million related to the acquisition of Mill Lane. This reduction was the result of purchase accounting, which requires adjustments to capitalize inventory at fair value. This impact is reflected in cost of sales. Metrology gross margins increased from 42.6% in the prior year period to 44.9%, despite a reduction in sales volume, principally due to a richer product mix, as well as a reduction in costs.

Operating Expenses

Selling, general and administrative expenses increased by $0.9 million, or 3.8%, from the prior-year period primarily due to increased bonus incentives as a result of improved profitability, and an increase in non-cash compensation expense related to stock options and shares of restricted stock. These increases were partially offset by reductions in consulting services and travel and entertainment expense resulting from our cost reduction efforts. As a percentage of sales, selling, general and administrative expenses decreased from 23.3% in the third quarter of 2007 to 20.4% in the third quarter of 2008.

Research and development expense increased $0.3 million from the third quarter of 2007, primarily due to research efforts in LED & Solar Process Equipment. As a percentage of sales, research and development decreased from 15.4% in the third quarter of 2007 to 13.2% in the third quarter of 2008.

Amortization expense increased by $1.2 million, or 60.7% from the third quarter of 2007, due primarily to amortization of intangible assets acquired as part of the acquisition of Mill Lane in the second quarter of 2008.

Restructuring expense of $4.1 million in the third quarter of 2008 consisted of $3.7 million associated with the acceleration of equity awards and other severance costs resulting from the mutually agreed upon termination of the employment agreement of our former CEO, as well as $0.4 million for severance and lease-related charges in Metrology. Restructuring expense of $0.5 million in the third quarter of 2007 consisted of personnel severance costs incurred across all divisions.

Interest Expense, Net

Net interest expense in the third quarter of 2008 was $1.1 million, compared to $0.7 million in the third quarter of 2007. The increase in net interest expense is due to a reduction in interest income resulting primarily from lower interest rates during the current period.

Income Taxes

Income tax provision for the quarter ended September 30, 2008 was $0.8 million, compared to $1.0 million in the third quarter of 2007. The 2008 provision for income taxes included $0.5 million relating to our foreign operations which continue to be profitable, and $0.3 million relating to our domestic operations. The 2007 provision for income taxes included $0.6 million relating to our foreign operations and $0.4 million relating to our domestic operations.

Nine Months Ended September 30, 2008 and 2007

The following table shows our Consolidated Statements of Operations, percentages of sales, and comparisons between the nine months ended September 30, 2008 and 2007 (dollars in thousands):

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007		Dollar and Percentage Change	
Net sales	$ 332,465	100.0%	$ 295,653	100.0%	$ 36,812	12.5%
Cost of sales	196,026	59.0	173,819	58.8	22,207	12.8
Gross profit	136,439	41.0	121,834	41.2	14,605	12.0
Operating expenses:						
Selling, general, and administrative expense	70,528	21.2	69,347	23.4	1,181	1.7
Research and development expense	45,173	13.6	46,341	15.7	(1,168)	(2.5)
Amortization expense	7,530	2.3	8,236	2.8	(706)	(8.6)
Restructuring expense	6,995	2.1	1,974	0.7	5,021	254.4
Asset impairment charge	285	0.1	—	0.0	285	100.0
Other income, net	(591)	(0.2)	(605)	(0.2)	(14)	(2.3)
Total operating expenses	129,920	39.1	125,293	42.4	4,627	3.7
Operating income (loss)	6,519	1.9	(3,459)	(1.2)	9,978	288.5
Interest expense, net	2,913	0.8	2,256	0.7	657	29.1
Gain on extinguishment of debt	—	0.0	(738)	(0.2)	(738)	(100.0)
Income (loss) before income taxes and noncontrolling interest	3,606	1.1	(4,977)	(1.7)	8,583	172.5
Income tax provision	2,860	0.9	3,490	1.2	(630)	(18.1)
Noncontrolling interest	(200)	(0.1)	(482)	(0.2)	(282)	(58.5)
Net income (loss)	$ 946	0.3%	$ (7,985)	(2.7)%	$ 8,931	111.8%

Net Sales and Orders

Net sales of $332.5 million for the nine months ended September 30, 2008 were up 12.5% compared to the comparable 2007 period. The following is an analysis of sales and orders by segment and by region (dollars in thousands):

	Sales				Orders				Book-to-Bill Ratio	
	Nine Months Ended September 30,		Dollar and Percentage Change		Nine Months Ended September 30,		Dollar and Percentage Change			
	2008	2007	Year to Year		2008	2007	Year to Year		2008	2007
Segment Analysis										
LED & Solar Process Equipment	$ 128,205	$ 82,188	$ 46,017	56.0%	$ 116,513	$ 121,448	$ (4,935)	(4.1)%	0.91	1.48
Data Storage Process Equipment	104,096	98,840	5,256	5.3	124,685	105,837	18,848	17.8	1.20	1.07
Metrology	100,164	114,625	(14,461)	(12.6)	94,738	109,392	(14,654)	(13.4)	0.95	0.95
Total	$ 332,465	$ 295,653	$ 36,812	12.5%	$ 335,936	$ 336,677	$ (741)	(0.2)%	1.01	1.14
Regional Analysis										
North America	$ 116,631	$ 95,516	$ 21,115	22.1%	$ 124,666	$ 121,696	$ 2,970	2.4%	1.07	1.27
Europe	69,607	53,199	16,408	30.8	57,664	63,396	(5,732)	(9.0)	0.83	1.19
Japan	29,347	43,732	(14,385)	(32.9)	24,548	42,125	(17,577)	(41.7)	0.84	0.96
Asia Pacific	116,880	103,206	13,674	13.2	129,058	109,460	19,598	17.9	1.10	1.06
Total	$ 332,465	$ 295,653	$ 36,812	12.5%	$ 335,936	$ 336,677	$ (741)	(0.2)%	1.01	1.14

By segment, LED & Solar Process Equipment sales were up 56.0% due to an increase in end user demand from expanding applications for HB-LEDs, as well as strong customer acceptance of Veeco's newest generation systems. Additionally, Data Storage Process Equipment sales increased by 5.3% due to customers' technology and capacity requirements. This was partially offset by a decrease in Metrology sales of 12.6%, primarily due to a slowdown in the semiconductor and research and industrial markets. By region, net sales increased by 22.1%, 30.8% and 13.2% in North America, Europe, and Asia Pacific, respectively, and decreased by 32.9% in Japan. We believe that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Orders for the nine-month period ended September 30, 2008 were essentially flat with the comparable 2007 period. By segment, the 13.4% decrease in Metrology orders was due to decreased orders for AFM products resulting from lower demand in the semiconductor, research, and industrial markets. The 4.1% decrease in orders for LED & Solar Process Equipment was due primarily to the third quarter 2008 decline in MOCVD orders as the HB-LED industry absorbs the significant number of new MOCVD tools purchased in the past two years. These decreases are principally offset by a 17.8% increase in Data Storage Process Equipment orders, primarily for slicing and dicing products used to create TFMHs.

Our book-to-bill ratio for the nine months ended September 30, 2008 was 1.01 to 1. Our backlog as of September 30, 2008 was $176.0 million, compared to $173.5 million as of December 31, 2007. During the nine months ended September 30, 2008, we experienced an increase in backlog of $12.7 million due to the acquisition of Mill Lane, offset by order cancellations of $13.7 million. The outlook for orders in the fourth quarter is uncertain, and it appears that the global economic climate and constrained financing environment may cause a broad slowdown in capital equipment purchases by our customers. Due to these changing business conditions and weak capital equipment spending by customers in our businesses, as well as the global credit crisis, we expect to experience continued volatility in the form of cancellations and/or rescheduled orders.

Gross Profit

Gross profit for the nine months ended September 30, 2008, was 41.0%, compared to 41.2% in the comparable 2007 period. Strong performance in Process Equipment due primarily to an increase in sales volume was offset primarily by unfavorable sales volume in Metrology. LED & Solar Process Equipment gross margins increased from 37.0% in the prior-year period to 39.6%, primarily due to a significant overall increase in sales volume as compared to the prior-year period as well as favorable pricing on new MOCVD products and a favorable product mix in MBE products. The current-year period includes a reduction in gross profit of $0.9 million related to the acquisition of Mill Lane. The reduction was the result of purchase accounting, which requires adjustments to capitalize inventory at fair value. This impact is reflected in cost of sales. Data Storage Process Equipment gross margins decreased from 39.5% in the prior-year period to 38.9%, due to favorable warranty and pricing in the prior-year period. Metrology gross margins decreased from 45.6% in the prior-year period to 45.2%, principally due to lower sales volume offset by a reduction in spending and favorable product mix.

Operating Expenses

Selling, general and administrative expenses increased by $1.2 million, or 1.7%, from the prior-year period primarily due to increased bonus incentives and profit sharing as a result of better profitability performance, as well as an increase in non-cash compensation expense related to stock options and shares of restricted stock. This was partially offset by reductions in travel and entertainment expense and consulting services associated with our cost reduction initiatives. As a percentage of sales, selling, general and administrative expenses decreased from 23.4% in 2007 to 21.2% in 2008.

Research and development expense decreased $1.2 million from the comparable 2007 period, primarily due to a more focused approach to data storage product development as a result of the decision made in the fourth quarter of 2007 by management to discontinue two product lines and consolidate facilities to better reflect the volume of business and industry growth rates. As a percentage of sales, research and development decreased from 15.7% in 2007 to 13.6% in 2008.

Amortization expense was $7.5 million in the 2008 period, compared to $8.2 million in 2007. The decrease was the result of certain technology-based intangible assets becoming fully amortized, offset by the amortization in the current period of intangibles acquired as part of the acquisition of Mill Lane.

During the nine months ended September 30, 2008, we recorded restructuring charges of $7.0 million, of which $4.1 million was incurred during the third quarter of 2008 and $2.9 million was incurred during the first quarter of 2008. The third quarter restructuring charge consists of $3.7 million associated with the acceleration of equity awards and other severance costs resulting from the mutually agreed upon termination of the employment agreement of our former CEO, as well as $0.4 million for severance and lease-related charges in Metrology. The first quarter restructuring charge consisted of $2.6 million of costs associated with the consolidation and relocation of our Corporate headquarters and $0.3 million of personnel severance costs. Restructuring expense in 2007 of $2.0 million consisted of personnel severance costs.

An asset impairment charge of $0.3 million was taken during 2008 primarily for leasehold improvements and furniture and fixtures abandoned in connection with the consolidation and relocation of our Corporate headquarters into our Plainview, New York facility during the first quarter. No similar expense was incurred in the prior-year period.

Interest Expense, Net

Net interest expense in the nine-month period ended September 30, 2008 was $2.9 million, compared to $2.3 million in the comparable 2007 period. This increase in net interest expense was due to a reduction in interest income resulting from lower interest rates.

Gain on Extinguishment of Debt

During the first quarter of 2007, we repurchased $56.0 million of our convertible subordinated notes, reducing the amount outstanding from $200.0 million to $144.0 million. The repurchase amount was $55.1 million in cash, of which $54.8 million related to principal and $0.3 million related to accrued interest. As a result of these repurchases, we recorded a net gain from the extinguishment of debt in the amount of $0.7 million in 2007.

Income Taxes

Income tax provision for the nine months ended September 30, 2008 was $2.9 million compared to $3.5 million in the comparable prior-year period, primarily as a result of a $0.4 million decrease in the reserve relating to foreign unrecognized tax benefits as required by FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). The 2008 provision for income taxes included $1.9 million relating to our foreign operations which continue to be profitable, and $1.0 million relating to our domestic operations. The 2007 provision for income taxes included $2.5 million relating to our foreign operations and $1.0 million relating to our domestic operations.

Liquidity and Capital Resources

Historically, our principal capital requirements have included the funding of acquisitions and capital expenditures. We traditionally have generated cash from operations and debt and stock issuances. Our ability to generate sufficient cash flows from operations is dependent on the continued demand for our products and services. A summary of the cash flow activity for the nine months ended September 30, 2008 and 2007 is as follows (in thousands):

	Nine Months Ended September 30,	
	2008	2007
Net cash provided by operating activities	$ 22,420	$ 22,777
Net cash used in investing activities	(21,296)	(6,543)
Net cash used in financing activities	(558)	(54,443)
Effect of exchange rates on cash and cash equivalents	35	(435)
Net change in cash and cash equivalents	601	(38,644)
Cash and cash equivalents at beginning of period	117,083	147,046
Cash and cash equivalents at end of period	$ 117,684	$ 108,402

We had a net increase in cash of $0.6 million during the nine months ended September 30, 2008. Cash provided by operations was $22.4 million for this period, as compared to $22.8 million for the comparable 2007 period. Net income adjusted for non-cash items provided operating cash flows of $29.0 million for the nine months ended September 30, 2008. Net cash provided by operations for the nine months ended September 30, 2008 was negatively impacted by a net change in net operating assets and liabilities of $6.6 million. This was driven by a decrease in accounts payable and accrued expenses of approximately $9.6 million and an increase of $2.0 million in capitalized patent costs, partially offset by a decrease in accounts receivable of $6.6 million. Due to the current global economic crisis, we cannot assure timely receipts of accounts receivable, due to cash constraints on our customers. As of September 30, 2008, we are not aware of any specific uncollectible accounts resulting from the current economic uncertainties and believe that related reserves are adequate to cover the uncertainties that exist.

Cash used in investing activities of $21.3 million for the nine months ended September 30, 2008 resulted from the acquisition of Mill Lane, net of cash acquired, for $11.0 million, as well as capital expenditures of $10.4 million. During the fourth quarter of 2008, we expect to invest an estimated additional $4.2 million in capital projects primarily related to engineering equipment and lab tools used in producing, testing and process development of our products and enhanced manufacturing facilities. Cash used in investing activities of $6.5 million for the nine months ended September 30, 2007 resulted primarily from capital expenditures of $6.8 million, partially offset by $0.3 million in proceeds from the sale of property, plant, and equipment.

Cash used in financing activities for the nine months ended September 30, 2008 totaled $0.6 million, resulting from $1.0 million in restricted stock tax withholdings and $0.3 million in mortgage payments, offset by proceeds of $0.7 million from common stock issuances resulting from stock option exercises. Cash used in financing activities for the nine months ended September 30, 2007 totaled $54.4 million, primarily consisting of $55.4 million used to repurchase a portion of our outstanding convertible subordinated notes (discussed below) and $1.5 million in payments for debt issuance costs, partially offset by $2.8 million from the issuance of common stock resulting from the exercise of employee stock options.

During the first quarter of 2007, we repurchased $56.0 million of our 4.125% convertible subordinated notes due 2008 (the “Old Notes”), for $55.1 million (including accrued interest) in cash which reduced the amount of Old Notes outstanding from $200.0 million to $144.0 million. As a result of these repurchases, we recorded a net gain of $0.7 million. We may engage in similar transactions in the future depending on market conditions, our cash position and other factors.

During the s econd quarter of 2007, we issued new convertible subordinated notes due 2012 (the “New Notes”) pursuant to privately negotiated exchange agreements with certain holders of the Old Notes. Under these agreements, such holders agreed to exchange $118.8 million aggregate principal amount of the Old Notes for approximately $117.8 million aggregate principal amount of New Notes due April 15, 2012. No net gain or loss was recorded on the exchange transactions since the carrying value of the Old Notes including unamortized deferred financing costs approximated the exchange value of the New Notes. Following the exchange transactions, approximately $25.2 million of the Old Notes remained outstanding and are due in December 2008. We expect to pay off these Old Notes through the use of our available cash balances.

The New Notes initially are convertible into 36.7277 shares of common stock per $1,000 principal amount of New Notes at a conversion price of $27.23 at any time during the period beginning on January 15, 2012 through the close of business on the second day prior to April 15, 2012 and earlier upon the occurrence of certain events. We pay interest on the New Notes on April 20 and October 15 of each year.

During the third quarter of 2007, we entered into the Credit Agreement with HSBC Bank, as administrative agent. The Credit Agreement provides for borrowings of up to $100.0 million with an annual interest rate that is a floating rate equal to the prime rate of the agent bank. A LIBOR-based interest rate option is also provided. Borrowings may be used for general corporate purposes, including working capital requirements and acquisitions. The Credit Agreement contains certain restrictive covenants, and we are required to satisfy certain financial tests under the Credit Agreement. As of September 30, 2008, we are in compliance with all covenants. Substantially all of our domestic assets, other than real estate, have been pledged to secure our obligations under the New Credit Agreement. The revolving credit facility under the New Credit Agreement expires on March 31, 2012. As of September 30, 2008 and December 31, 2007, there were no borrowings or unsecured letters of credit outstanding. Since borrowing availability under the Credit Agreement is based upon earnings, the anticipated business downturn may have an impact on our borrowing availability and could potentially result in noncompliance with the restrictive covenants required by the Credit Agreement.

We believe that existing cash balances together with cash generated from operations and amounts available under the Credit Agreement will be sufficient to meet our projected working capital and other cash flow requirements for the next twelve months, as well as our contractual obligations. We believe we will be able to meet our obligation to repay the $25.2 million outstanding Old Notes that mature on December 21, 2008 through the use of available cash, and to repay the $117.8 million outstanding New Notes that mature on April 15, 2012 through a combination of conversion of the notes outstanding, refinancing, cash generated from operations, and other means.

During the second quarter of 2008, we acquired Mill Lane for $11.0 million, net of cash acquired, plus potential future earn-out payments of up to $19.0 million, contingent upon the future achievement of certain operating performance criteria. As of September 30, 2008, we have accrued $3.5 million in earn-out payments due to revenues earned through the end of the third quarter of 2008, and we anticipate accruing approximately $6.1 million during the fourth quarter of 2008. Payment for these earn-outs will be made in the first quarter of 2009. We believe we will be able to meet our obligation to pay these earn-out amounts to Mill Lane from the sources referred to above.

In 2006, we invested $0.5 million to purchase 19.9% of the common stock of Fluens Corporation (“Fluens”), of which 31% is owned by one of our Senior Vice Presidents. Veeco and Fluens have jointly developed a next-generation process for high-rate deposition of aluminum oxide for data storage applications. If this development is successful and upon the satisfaction of certain additional conditions by May 2009, we will be obligated to purchase the balance of the outstanding stock of Fluens for $3.5 million plus an earn-out payment to Fluens’ stockholders based on future performance.

Application of Critical Accounting Policies

General: Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us 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 liabilities, including potential 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. We consider certain accounting policies related to revenue recognition, the valuation of inventories, the impairment of goodwill and indefinite-lived intangible assets, the impairment of long-lived assets, warranty costs, the accounting for income taxes, and share-based compensation to be critical policies due to the estimation processes involved in each.

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

Inventory Valuation: Inventories are stated at the lower of cost (principally first-in, first-out method) or market. Management evaluates the need to record adjustments for impairment of inventory on a quarterly basis. Our 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 12 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 our 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: We have significant intangible assets related to goodwill and other acquired intangibles. In assessing the recoverability of our goodwill and other indefinite-lived intangible assets, we 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 those assets not previously recorded. During the fourth quarter of 2007, as required, we performed an annual impairment test, and based upon the judgment of management, it was determined that no impairment exists. Management continues to believe that there are no impairment indicators at the current time.

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 amortization or depreciation period, the carrying values of such assets are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Assumptions utilized by management in reviewing for impairment of long-lived assets could be effected by changes in strategy and/or market conditions which may require us to record additional impairment charges for these assets, as well as impairment charges on other long-lived assets not previously recorded.

Warranty Costs: We estimate the costs that may be incurred under the warranty we provide and record a liability in the amount of such costs at the time the related revenue is recognized. Estimated warranty costs are determined by analyzing specific product and historical configuration statistics and regional warranty support costs. Our warranty obligation is affected by product failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. As our customer engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required.

Income Taxes: As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Condensed Consolidated Balance Sheets. The carrying value of our deferred tax assets is adjusted by a valuation allowance to recognize the extent to which the future tax benefits will be recognized on a more likely than not basis. Our net deferred tax assets consist primarily of net operating loss and tax credit carryforwards, and timing differences between the book and tax treatment of inventory and other asset valuations. Realization of these net deferred tax assets is dependent upon our ability to generate future taxable income.

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

At September 30, 2008, we had a valuation allowance of approximately $68.0 million against substantially all of our domestic net deferred tax assets, which consist of net operating loss and tax credit carryforwards, as well as temporary deductible differences. The valuation allowance was calculated in accordance with the provisions of SFAS 109, which places primary importance on our historical results of operations. Although our operating results in prior years were significantly affected by restructuring and other charges, our historical losses and the loss incurred in 2007 represent negative evidence sufficient to require a full valuation allowance under the provisions of SFAS 109. If we are able to realize part or all of the deferred tax assets in future periods, we will reduce our provision for income taxes with a release of the valuation allowance in an amount that corresponds with the income tax liability generated.

In July 2006, the FASB issued FIN 48, which became effective for us on January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained under examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such uncertain tax positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

Share-Based Compensation: We account for our share-based compensation in accordance with SFAS 123(R). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Additionally, SFAS No. 123(R) requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous accounting literature, which has the effect of reducing consolidated net operating cash flows and increasing consolidated net financing cash flows in periods after adoption. For the nine months ended September 30, 2008, we did not recognize any consolidated financing cash flows for such excess tax deductions.

Under SFAS 123(R), we are required to record the fair value of stock-based compensation awards as an expense. In order to determine the fair value of stock options on the grant date, we apply the Black-Scholes option-pricing model. Inherent in the model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility and option life assumptions require a level of judgment which make them critical accounting estimates. We use an expected stock-price volatility assumption that is a combination of both historical and implied volatilities of the underlying stock, which is obtained from public data sources. We consider the exercise behavior of past grants and model the pattern of aggregate exercises in determining the expected weighted-average option life.

Recent Accounting Pronouncements

On February 12, 2008, the FASB issued FSP 157-2. FSP 157-2 amends SFAS 157 to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Currently we believe the impact of the adoption of FSP 157-2 in 2009 will be on our disclosures only.

In December 2007, the FASB issued SFAS 141(R) and SFAS 160. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value with limited exceptions. SFAS 141 (R) also changes the accounting treatment for certain other items that relate to business combinations. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The purpose of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The most significant provisions of this statement result in changes to the presentation of noncontrolling interests in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement will impact the manner in which we present noncontrolling interests, but will not impact our consolidated financial position or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and requires comparative disclosures only for periods subsequent to initial adoption. The adoption of the provisions of SFAS 161 will not impact our consolidated financial position or results of operations.

In May 2008, the FASB issued FSP APB 14-1. The guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. FSP APB 14-1 will require issuers of convertible debt that can be settled in cash to separately account for (i.e. bifurcate) a portion of the debt associated with the conversion feature and reclassify this portion to stockholders' equity. The liability portion, which represents the fair value of the debt without the conversion feature, will be accreted to its face value over the life of the debt using the effective interest method, with the accretion expense recorded to interest. FSP APB 14-1 will be applied retrospectively to all periods presented. The cumulative effect of the change in accounting principle on periods prior to those presented will be recognized as of the beginning of the first period presented. We expect the adoption of FSP APB 14-1 to have a material effect on our consolidated financial position, results of operations, and earnings per share. Effective as of the date of issuance of the New Notes, we will reclassify approximately $16.3 million from long-term debt to additional paid-in capital, and as of the adoption of FSP APB 14-1 in the beginning of 2009, our accumulated deficit will reflect approximately $4.8 million of debt accretion that occurred between the issuance date of the New Notes and the adoption date. Approximately $3.2 to $3.7 million of additional interest expense will be recorded annually from the adoption date through the maturity date of the convertible debt. This additional interest expense will not require the use of cash.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our net sales to foreign customers represented approximately 66.4% and 64.9%, respectively, of our total net sales for the three months and nine months ended September 30, 2008, and 70.3% and 67.7%, respectively, for the comparable 2007 periods. We expect that net sales to foreign customers will continue to represent a large percentage of our total net sales. Our net sales denominated in foreign currencies represented approximately 13.2% and 13.9% of our total net sales for the three months and nine months ended September 30, 2008, respectively, and 21.1% and 20.7%, respectively, for the comparable 2007 periods.

The condensed consolidated results of operations for the three months and nine months ended September 30, 2008 include aggregate foreign currency gains of less than $0.1 million and $0.1 million, respectively, which were net of losses of approximately $0.1 million and $0.3 million, respectively, related to forward contracts. For the three months and nine months ended September 30, 2007, the results included aggregate foreign currency losses of less than $0.1 million and approximately $0.3 million, respectively, which included gains of less than $0.1 million and losses of approximately $0.1 million, respectively, related to forward contracts.

We are exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have the largest impact on translating our international operating profit are the Japanese Yen and the Euro. We use derivative financial instruments to mitigate these risks. We do not use derivative financial instruments for speculative or trading purposes. We generally enter into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known currency exposures. The average notional amount of such contracts was approximately $0.6 million and $1.8 million, respectively, for the three months and nine months ended September 30, 2008. On September 25, 2008 we entered into two forward contracts for the month of October with a total notional amount of approximately $3.5 million. The fair values of these contracts at inception were zero, which did not significantly change at September 30, 2008. We do not anticipate any significant future loss from fluctuations in currency exchange rates, as our hedging strategy is designed to minimize the risk of such fluctuations.

Assuming third quarter 2008 variable debt and investment levels, the effect of a one-point change in interest rates would not have a material effect on net interest expense.

Item 4. Controls and Procedures.

Our 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 us 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 SEC'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.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of management, including the CEO and Chief Financial Officer ("CFO"), as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings.

We have implemented new company-wide integrated applications software. As of April 1, 2008, we have completed the conversion to this new platform in all of Veeco's business locations other than at the Mill Lane location, which was recently acquired by Veeco. As a result, certain changes have been made to our internal controls, which management believes will strengthen our internal control structure. There have been no other significant changes in our internal controls or other factors during the fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 11, 2008, we announced that we had settled the patent litigation which we had brought in 2003 in the United States District Court for the Central District of California against Asylum Research Corporation, a privately-held company founded by former Veeco employees. In the lawsuit, we had alleged that the manufacture, use, and sale of Asylum's MFP-3D AFM constituted willful infringement of five patents owned by us, as well as other claims. In the settlement, Veeco and Asylum agreed to drop all pending claims against each other and agreed to a five year, worldwide cross license of each company's patents and a mutual covenant not to sue on patents either party has a right to assert. Asylum made a net payment to Veeco and will pay an ongoing royalty to Veeco for the five-year term of the cross license. As part of the settlement, Asylum acknowledged the validity of the Veeco patents asserted in the case. During the case, we capitalized legal costs incurred to defend our patents and are now amortizing these capitalized costs over the remaining lives of these patents. Payments received from Asylum have been and will continue to be netted against the capitalized legal costs upon receipt.

Item 1A. Risk Factors.

In addition to the information regarding risk factors that appears in the "Safe Harbor Statement" at the beginning of this Quarterly Report on Form 10-Q and in Part I — Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, we have noted the following significant risk factor as of September 30, 2008:

The recent turmoil in the world's credit markets may have a protracted adverse impact on capital spending in the markets we serve and, as a result, could have a material adverse effect on our business and our results of operations.

We are exposed to the risks associated with the volatility of the U.S. and global economies. In October 2008, the global financial markets experienced significant losses due to failures of many dominant financial institutions. The governments of the United States and several foreign countries instituted a bailout plan to assist many banks and lenders through the economic crisis. This crisis results in a lack of visibility regarding whether or when there will be sustained growth periods for sales of our products and uncertainty regarding the amount of sales, since many of our customers rely on lending arrangements and/or have limited resources to finance capital technology expenditures. In addition, it is expected that this crisis and economic uncertainty will result in decreased consumer business and government spending, which will likely reduce the need our customers have for our products. Slow or negative growth in the global economy may continue to materially and adversely affect our business, financial condition and results of operations for the foreseeable future. Our results of operations would be further adversely affected if we were to experience lower than anticipated order levels, cancellations of orders in backlog, extended customer delivery requirements, or pricing pressure as a result of a slowdown. Any negative effect on our earnings may affect our borrowing availability and potentially result in noncompliance with the restrictive covenants of our existing credit agreement.

Item 6. Exhibits.

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

Number	Description	Incorporated by Reference to the Following Document:
3.1	Fourth Amended and Restated Bylaws of the Company, effective October 23, 2008	Current Report on Form 8-K filed October 27, 2008, Exhibit 3.1
10.1	Amendment to Employment Agreement dated as of September 12, 2008 between John F. Rein, Jr. and Veeco Instruments Inc.	*
10.2	Amendment to Employment Agreement dated as of September 12, 2008 between Robert P. Oates and Veeco Instruments Inc.	*
10.3	Senior Executive Change in Control Policy effective as of September 12, 2008	*
10.4	Service Agreement effective July 24, 2008 between Edward H. Braun and Veeco Instruments Inc.	Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, Exhibit 10.1
31.1	Certification of Chief Executive Officer pursuant to Rule 13a—14 (a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a—14 (a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*

* Filed herewith

SIGNATURES

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

Date: October 29, 2008

Veeco Instruments Inc.

By: /s/ JOHN R. PEELER
John R. Peeler
Chief Executive Officer

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

INDEX TO EXHIBITS

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* Filed herewith

Exhibit 10.1

AMENDMENT TO EMPLOYMENT AGREEMENT

September 12, 2008

Reference is made to the Employment Agreement dated April 1, 2003 between Veeco Instruments Inc. and John F. Rein, Jr., as amended June 9, 2006 (the "Employment Agreement"). Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Employment Agreement.

The Employment Agreement is hereby amended by adding a new section at the end thereof to read as follows:

> 17. IRC Section 409A. The parties understand and agree that certain payments contemplated by this Agreement, including severance pay, may be "deferred compensation" for purposes of IRC Section 409A. Notwithstanding any provision of this Agreement to the contrary, any payments constituting deferred compensation required to be made upon or in respect of the Executive's termination of employment hereunder shall not be paid prior to six months after the Executive's termination of employment, to the extent necessary to comply with IRC Section 409A(2)(B)(i). The Company shall identify in writing delivered to the Executive any payments it reasonably determines are subject to delay hereunder and shall promptly pay any such delayed payments, without interest, at the conclusion of the applicable six month period (or, if later, when scheduled to be paid under the terms of the Agreement). No deferred compensation payable hereunder shall be subject to acceleration or to any change in the specified time or method of payment, except as otherwise provided under this Agreement and consistent with IRC Section 409A. In no event shall the Company have any liability or obligation with respect to taxes for which the Executive may become liable as a result of the application of IRC Section 409A.

AGREED:

Veeco Instruments Inc.

By: /s/ Authorized Signatory	/s/ John F. Rein, Jr.
Name:	John F. Rein, Jr.
Title:	

Exhibit 10.2

AMENDMENT TO LETTER AGREEMENT

September 12, 2008

Reference is made to the Letter Agreement dated October 31, 2005 between Veeco Instruments Inc. and Robert P. Oates (the "Letter Agreement").

In connection with the designation of Mr. Oates as an eligible employee under Veeco's Senior Executive Change in Control Policy, in the form presented and effective on the date hereof, the parties agree as follows:

The Letter Agreement is hereby amended by deleting the definition of "Good Reason" and substituting therefor the following:

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

Veeco Instruments Inc.

By: /s/ Authorized Signatory	/s/ Robert P. Oates
Name:	Robert P. Oates
Title:	

Exhibit 10.3

VEECO INSTRUMENTS INC.
SENIOR EXECUTIVE CHANGE IN CONTROL POLICY

1. Purpose. Effective as of September 12, 2008, Veeco Instruments Inc., a Delaware corporation (the " Company " or " Veeco "), has adopted this Senior Executive Change in Control Policy (as may be amended from time to time, the " Policy "). The Compensation Committee of the Board (the " Committee ") recognizes that, as is the case for most publicly held companies, the possibility of a Change in Control (as defined below) exists, and the Company wishes to ensure that certain Eligible Employees (as defined below) are not practically disabled from discharging their duties in respect of a proposed or actual transaction involving a Change in Control. Accordingly, the Company wishes to provide additional inducement for the Eligible Employees to continue to remain in the employ of the Company and to provide certain severance benefits to the Eligible Employees in the event that their employment is terminated under certain circumstances related to a Change in Control.

2. Certain Defined Terms. In addition to terms defined elsewhere herein, the following capitalized terms have the following meanings when used herein:

" Affiliate " shall mean with respect to any Person, any other Person directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with, such Person. For purposes of this definition, "control" shall have the meaning given such term under Rule 405 of the Securities Act of 1933, as amended.

" Board " shall mean the Board of Directors of the Company.

" Cause " shall mean a termination based on (i) Eligible Employee's willful and substantial misconduct in the performance of his duties, (ii) Eligible Employee's willful failure to perform his duties after two weeks written notice from the Company (other than as a result of a total or partial incapacity due to a physical or mental illness, accident or similar event), (iii) the Eligible Employee's material breach of any of the agreements contained in Section 6 hereof, (iv) the commission by the Eligible Employee of any material fraudulent act with respect to the business and affairs of the Company or any subsidiary or affiliate thereof, or (v) Eligible Employee's conviction of (or plea of nolo contendere to) a crime constituting a felony.

" Change in Control " shall mean:

(i) the acquisition, as evidenced by the filing with the Securities and Exchange Commission (the "Commission") of an executed report on Schedule 13D, by any Person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership (determined in accordance with Rule 13d-3 under the Exchange Act), directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of the capital stock of the Company entitling that Person to exercise (A) 25% or more of the total voting power of all shares of such capital stock entitled to vote generally in elections of directors without the prior written consent of a majority of the Continuing Directors or (B) 40% or more of the total voting power of all shares of such capital stock entitled to vote generally in elections of directors with the prior written consent of a majority of the Continuing Directors.

(ii) any consolidation or merger of the Company with or into any other person, any merger of another person into the Company, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of the Company's properties and assets to another person, other than:

(A) any transaction (1) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of the capital stock of the Company or (2) pursuant to which holders of the capital stock of the Company immediately prior to the transaction are entitled to exercise, directly or indirectly, 50% or more of the total voting power of all shares of the capital stock of the Company entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction; or

(B) any merger solely for the purpose of changing the Company's jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock of the Company solely into shares of common stock of the surviving entity;

(iii) during any consecutive two-year period, individuals who at the beginning of that two-year period constituted the Board of Directors (together with any new directors whose election or nomination to the Board of Directors was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was approved by the Board of Directors or a nominating committee thereof, the majority of the members of which meet the above criteria) (each, a "Continuing Director") cease for any reason to constitute a majority of the Board of Directors then in office;

(iv) the Company is liquidated or dissolved or a resolution is passed by the Company's stockholders approving a plan of liquidation or dissolution of the Company; or

(v) in the case of a Group Executive Participant, the Company sells to a third party, or otherwise disposes of, all or substantially all of the relevant Group's assets or sells to a third party or otherwise disposes of a majority of the outstanding capital stock of the entity which owns the assets and conducts the business of the relevant Group, each as determined by the Committee in its sole discretion (as described in this clause (v), a "Group Change in Control").

" Code " shall mean Internal Revenue Code of 1986, as amended.

" Confidential Information " shall mean any information that: (a) is disclosed to an Eligible Employee, learned by an Eligible or created by an Eligible Employee in connection with his employment with Veeco (or a predecessor company now owned by or part of Veeco), and (b) Veeco treats as proprietary, private or confidential. Confidential Information may include, without limitation, information relating to Veeco's products, services and methods of operation, the identities and competencies of Veeco's employees, customers and suppliers, trade secrets, know-how, processes, techniques, data, sketches, plans, drawings, chemical formulae, computer software, financial information, operating and cost data, research databases, selling and pricing information, business and marketing plans, and information concerning potential acquisitions, dispositions or joint ventures. Notwithstanding the foregoing, "Confidential Information" does not include any of the foregoing items which has become publicly known or made generally available (provided that information will not cease to be "Confidential Information" as a result of an Eligible Employee's breach of confidentiality).

" Eligible Employee " shall mean an employee of the Company selected by the Committee to be covered by the Policy pursuant to Section 3 and listed on Exhibit A hereto, as it may be amended from time to time.

" Good Reason " shall mean any of the following events: (i) any reduction in the total amount of an Eligible Employee's base salary or target bonus; or (ii) any involuntary relocation of an Eligible Employee's principal place of business to a location more than 50 miles from the Eligible Employee's current principal place of business (or, in the case of employees whose principal place of business is more than 50 miles from their primary residence, an involuntary relocation of such employee's principal place of business such that the employee's overall level of commuting substantially increases). Good Reason shall not be deemed to have occurred unless the Eligible Employee provides the Company with written notice of the existence of the applicable condition described in clauses (i) and (ii) above, within 90 days after the initial existence of such condition and the Company fails to remedy such condition within 30 days of the date of such written notice.

" Group Executive Participants " shall mean those Eligible Employees who are designated as "Group Executive Participants" on Exhibit A hereto. If applicable, the relevant Group shall also be specified on Exhibit A opposite the name of the Eligible Employee.

" Person " shall mean an individual, partnership, corporation, business trust, limited liability company, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

" Voting Stock " shall mean all capital stock of the Company which by its terms may be voted on all matters submitted to stockholders of the Company generally.

3. Eligibility . The Committee shall determine which employees of the Company shall be Eligible Employees covered by the Policy. As of the effective date of the Policy, all Eligible Employees are listed on Exhibit A . From time to time, the Committee may, in its sole discretion, revise the list of individuals who are Eligible Employees by adding additional employees to, or, subject to Section 13, removing any Eligible Employee from, the list of Eligible Employees set forth on Exhibit A .

4. Effect of Change in Control; Certain Terminations in Connection with a Change in Control .

(a) Upon the consummation of a Change in Control (other than a Group Change in Control), the vesting, payment and/or exercisability of all stock option grants, restricted stock awards and any other equity-based compensation awards held by the Eligible Employee that would otherwise be eligible to become vested during the Eligible Employee's continued employment shall be accelerated and any outstanding stock options then held by the Eligible Employee shall remain exercisable until the earlier of (x) 12 months following the date of termination of the Eligible Employee's employment with the Company and (y) the expiration of the original term of such options.

(b) If an Eligible Employee's employment shall be terminated by the Company without Cause, or by the Eligible Employee for Good Reason, during the period commencing three (3) months prior to, and ending eighteen (18) months following, a Change in Control, and subject to the Eligible Employee's execution of a separation and release agreement in a form reasonably satisfactory to the Company:

(i) The Company shall pay to the Eligible Employee an amount equal to the product of (i) the sum of his then current (A) annual base salary and (B) the target bonus payable to the Eligible Employee pursuant to the Company's performance-based compensation bonus plan with respect to the fiscal year ending immediately prior to the date of termination, and (ii) 1.5; such amount shall be payable in a lump sum as soon as reasonably practicable (x) if such termination of employment occurs on or following the consummation of the Change in Control, after the date of such termination of employment, or (y) if such termination occurs prior to the consummation of the Change in Control, after the effective date of such Change in Control (either such date, the " Vesting Date "), but in any event, such payment shall be made within 2½ months following the end of the calendar year in which the Vesting Date occurs;

(ii) The Company shall continue to provide the Eligible Employee (and his dependents) with all health and welfare benefits which he (or his dependents) was participating in or receiving as of the date of termination (at a level then in effect with respect to coverage and employee premiums) until the 18-month anniversary of the date of termination. If such benefits cannot be provided under the Company's programs, such benefits and perquisites will be provided on an individual basis to the Eligible Employee such that his after-tax costs will be no greater than the costs for such benefits and perquisites under the Company's programs;

(iii) The Company shall pay to the Eligible Employee a pro-rated amount of the Eligible Employee's bonus for the fiscal year in which the date of termination occurs equal to the product of (i) the amount of the bonus the Eligible Employee would have otherwise earned had he been employed by the Company on the last day of the fiscal year in which the date of termination occurs multiplied by (ii) the number of days elapsed during such fiscal year prior to the date of termination divided by 365. Such pro-rated bonus shall be payable at the same time as bonuses for the year of termination are paid to employees generally, *provided, however*, that such payment shall be made within 2 ½ months following the end of the calendar year in which the Vesting Date occurs; and

(iv) The vesting, payment and/or exercisability of all stock option grants, restricted stock awards and any other equity-based compensation awards held by the Eligible Employee that would otherwise be eligible to become vested during the Eligible Employee's continued employment shall be accelerated and any outstanding stock options then held by the Eligible Employee shall remain exercisable until the earlier of (x) 12 months following the date of termination of the Eligible Employee's employment with the Company and (y) the expiration of the original term of such options.

(c) For the sake of clarity, "termination" as used in this Section 4 shall not include the case where (i) Veeco offers to retain the Eligible Employee in a position of substantial responsibility or (ii) Veeco requests that the Eligible Employee accepts a position with the acquiring entity in the Change in Control but the Eligible Employee declines the position.

5. Parachute Payments .

(a) Notwithstanding Section 4 (but subject to Section 5(b)), in the event that an Eligible Employee becomes entitled to any payments or benefits under this Policy and any portion of those payments or benefits, when added to any other amount theretofore or thereafter payable to the Eligible Employee as a result of or in connection with any Change in Control, whether or not under any other plan, arrangement or agreement with the Company, any Person whose actions resulted in the Change in Control or any Person having such a relationship with the Company or such Person as to require attribution of stock ownership between the parties under Section 318(a) of the Code (the " Aggregate Payments "), would be subject to the tax (the " Excise Tax ") imposed by Section 4999 of the Code, then the payments or benefits under this Policy and, if applicable, any other plan, arrangement or agreement shall be reduced (first by reducing the cash payments under this Policy, then by reducing any fringe or other benefits required to be provided under this Policy, and finally by reducing the payments and/or benefits under any other plan, arrangement or agreement) to an amount which is ten dollars ($10.00) less than the amount of the Aggregate Payments that could be made to the Eligible Employee before any portion of the Aggregate Payments would be subject to the Excise Tax.

(b) Notwithstanding Section 5(a), the Aggregate Payments shall be reduced pursuant to Section 5(a) only if the net after-tax amount received by the Eligible Employee after the application of Section 5(a) is greater than the net after-tax amount (taking into account the application of the Excise Tax) that the Eligible Employee would otherwise receive in connection with the Change in Control without the application of Section 5(a).

(c) All determinations and calculations required to effectuate this Section 5 (including, without limitation, the determination as to whether any Aggregate Payments would be subject to the Excise Tax and the amount of any reduction of the Aggregate Payments) shall be made by the Company's independent auditors (or another nationally recognized United States public accounting firm selected in good faith by the Company) (the " Auditors "). For purposes of making the calculations and determinations required by this Section 5, the Auditors may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code and the Department of Treasury Regulations issued thereunder.

6. Obligations of the Eligible Employee

As a condition to being designated as an Eligible Employee and to being eligible to receive benefits hereunder, each individual so designated agrees as follows (any individual not so agreeing shall notify the Company in writing within 10 days of being notified of the designation, in which case the designation shall be null and void):

(a) Confidentiality . The Eligible Employee acknowledges that the Company and its Affiliates continually develop Confidential Information; that the Eligible Employee may develop Confidential Information for the Company and its Affiliates; and that the Eligible Employee may learn of Confidential Information during the course of employment, including Confidential Information that may relate to a transaction which, if consummated, would constitute a Change in Control. The Eligible Employee will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not disclose Confidential Information to any Person or use Confidential Information except for the benefit of the Company or as required by applicable law after notice to the Company and a reasonable opportunity for the Company to seek protection of the Confidential Information prior to disclosure. The Eligible Employee understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination.

(b) Return of Company Property . All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company and its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the Eligible Employee, shall be the sole and exclusive property of the Company and its Affiliates. The Eligible Employee shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents and other property of the Company and its Affiliates then in the Eligible Employee's possession or control.

(c) Restricted Activities . In further consideration of the compensation that the Eligible Employee may become entitled to hereunder, the Eligible Employee agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Affiliates:

(i) While the Eligible Employee is employed by the Company and for eighteen (18) months after the termination of the Eligible Employee's employment (the "Non-Competition Period"), the Eligible Employee will not own, manage, work for or otherwise participate in any business whose products, services or activities compete with the current or currently contemplated products, services or activities of Veeco in any state or country in which Veeco sells products or conducts business and (x) in which such Eligible Employee was involved or (y) with respect to which such Eligible Employee had access to Confidential Information, in each case, during the 5 years prior to termination, *provided* , *however* , that the Eligible Employee may own up to 1% of the securities of any such public company (but without otherwise participating in the activities of such enterprise).

(ii) The Eligible Employee further agrees that while he is employed by the Company and during the Non-Competition Period, the Eligible Employee will not for himself or any other person: (a) induce or try to induce any employee to leave Veeco or otherwise interfere with the relationship between Veeco and any of its employees, (b) employ or engage as an independent contractor, any current or former employee of Veeco, other than former employees who have not worked for Veeco within the past year, (c) induce or try to induce any customer, supplier, licensor or business relation to stop doing business with Veeco or otherwise interfere with the relationship between Veeco and any of its customers, suppliers, licensors or business relations; or (d) solicit the business of any person known by the Eligible Employee to be a customer of Veeco, whether or not the Eligible Employee had personal contact with such person, with respect to products or activities which compete with the products or activities of Veeco in existence or contemplated at the time of termination of such Eligible Employee's employment.

(d) Enforcement of Covenants . The Eligible Employee acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to this Section 6. The Eligible Employee agrees that those restraints are necessary for the reasonable and proper protection of the Company and its

Affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. The Eligible Employee further acknowledges that, were he to breach any of the covenants contained in this Section 6, the damage to the Company could be irreparable. The Eligible Employee therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to seek preliminary and permanent injunctive relief against any breach or threatened breach by the Eligible Employee of any of said covenants, without having to post bond. The Eligible Employee agrees that, in the event that any provision of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographical area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

7. Successors .

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise, including, without limitation, any successor due to a Change in Control) to the business or assets of the Company expressly to assume this Policy and to perform in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Policy will be binding upon and inure to the benefit of the Company and any successor to the Company, including, without limitation, any persons directly or indirectly acquiring the business or assets of the Company in a transaction constituting a Change in Control (and such successor shall thereafter be deemed the “Company” for the purpose of this Policy), but will not otherwise be assignable, transferable or delegable by the Company.

(b) This Policy will inure to the benefit of and be enforceable by the Eligible Employees’ personal or legal representatives, executors, administrators, successors, heirs, distributees and legatees.

(c) This Policy is personal in nature and neither the Company nor any Eligible Employee shall, without the consent of the Company, assign, transfer or delegate any rights or obligations hereunder except as expressly provided in Sections 7(a) and 7(b). Without limiting the generality or effect of the foregoing, an Eligible Employee’s right to receive payments hereunder will not be assignable, transferable or delegable, other than by a transfer by such Eligible Employee’s will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 7(c), the Company shall have no liability to pay any amount so attempted to be assigned, transferred or delegated.

8. Administration; ERISA . This Policy shall be administered by the Committee (or the Committee’s delegate or successor). The Committee shall have the sole authority to interpret this Policy and to determine all questions (whether of fact or interpretation) arising in connection with this Policy. The Committee’s decisions shall be final and bind all parties. This Policy is intended to be an unfunded “top hat plan” that is not subject to the Employee Retirement Income Security Act of 1974, as amended (“ ERISA ”).

9. Notices . For all purposes of this Policy, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested,

postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service, addressed to the Company (to the attention of the General Counsel of the Company) at its principal executive office and to the Eligible Employee at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

10. Validity . If any provision of this Policy or the application of any provision hereof to any person or circumstances is held invalid, unenforceable or otherwise illegal, the remainder of this Policy and the application of such provision to any other person or circumstances will not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal will be reformed to the extent (and only to the extent) necessary to make it enforceable, valid or legal.

11. Governing Law; Jurisdiction . The laws of the state of New York shall govern the interpretation, validity and performance of the terms of this Policy, regardless of the law that might be applied under principles of conflicts of law. Any suit, action or proceeding against any Eligible Employee, with respect to this Policy may be brought in any court of competent jurisdiction in the State of New York.

12. Relationship with Other Plans . This Policy is intended to supplement, but not duplicate, any benefits to which an Eligible Employee may be entitled under any other severance, employment or other individual agreement. The Committee, in its sole discretion, will make any interpretation or determination necessary to implement this provision.

13. Amendment; Termination . The Company expressly reserves the right to amend or terminate this Policy, to discontinue or eliminate benefits hereunder or to remove any employee from the list of Eligible Employees covered by this Policy at any time in its sole discretion; *provided, however,* that, during the period commencing upon the earlier of (a) three months prior to the signing of a definitive agreement that, if consummated, would result in a Change in Control, and (b) the filing of a Schedule TO (or any appropriate successor form) with respect to a tender offer with the Commission that, if accepted, would result in a Change in Control, (each, a " Triggering Event ") and ending upon the earlier of (x) the date on which the Committee in its sole discretion determines that the Triggering Event will not actually result in a Change in Control, and (y) the 18 month anniversary of the Change in Control, no amendment which would deprive an Eligible Employee of any benefit to which he would have been entitled hereunder, nor any termination of this Policy, nor removal of an employee from the list of Eligible Employees covered by this Policy, shall be effective with respect to such Eligible Employee.

14. Section 409A .

(a) This Policy is intended to be exempt from the requirements of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, " Section 409A "). The Company may, in its discretion, adopt such amendments to the Policy or adopt other procedures, or take any other actions, as the Company determines are necessary or appropriate to exempt this Policy from Section 409A (or, if the Committee determines appropriate, to comply with the requirements of Section 409A), including without limitation amendments, procedures and action with retroactive effect.

(b) Notwithstanding the foregoing or any other provision of this Policy, if and to the extent that the Company determines, in its sole discretion, that any payments or benefits payable under this Policy are deferred compensation subject to Section 409A, the following will apply:

(i) if the Eligible Employee is a "specified employee" (as defined in Section 409A) at the time of his termination of employment, (x) during the first 6 months after such Eligible Employee's termination of employment, such Eligible Employee shall be paid only the portion, if any, of such payments that will not subject him to additional taxes and interest under Section 409A (" Delay Period "). If this Section applies and the method of payment is not a lump sum, the first payment to the Eligible Employee will include all amounts that would have been paid during the Delay Period but for this Section, and (y) to the extent that benefits to be provided to such an Eligible Employee pursuant to this Policy are not non-taxable medical benefits or other benefits not considered nonqualified deferred compensation for Section 409A, such provision of benefits shall be delayed until the end of the Delay Period to the extent necessary to avoid the imposition of additional taxes and interest on the Eligible Employee, provided that, if the provision of any ongoing benefits would not be required to be delayed if the premiums were paid by the Eligible Employee, the Eligible Employee shall pay the full cost of the premiums for such benefits during the Delay Period and the Company shall pay him an amount equal to the amount of such premiums within ten (10) days after the end of the Delay Period.

(ii) To the extent that any benefits to be provided to an Eligible Employee pursuant to this Policy are considered nonqualified deferred compensation and are reimbursements subject to Section 409A, the reimbursement of eligible expenses related to such benefits shall be made on or before the last day of the Eligible Employee's taxable year following the Eligible Employee's taxable year in which the expense was incurred.

15. Miscellaneous .

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

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

* * * * *

I hereby certify that the forgoing Policy was duly adopted by the Committee as of the date first above written.

Executed as of this 12th day of September, 2008

/s/ Roger D. McDaniel
Roger D. McDaniel
Chairman of the Compensation Committee

Exhibit A

Eligible Employees

Exhibit 31.1

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

I, John R. Peeler, Chief Executive Officer of Veeco Instruments Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2008 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN R. PEELER
John R. Peeler
Chief Executive Officer
Veeco Instruments Inc.
October 29, 2008

Exhibit 31.2

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2008 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN F. REIN, JR.
John F. Rein, Jr.
Executive Vice President and Chief Financial Officer
Veeco Instruments Inc.
October 29, 2008

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Veeco Instruments Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Peeler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN R. PEELER
John R. Peeler
Chief Executive Officer
Veeco Instruments Inc.
October 29, 2008

A signed original of this written statement required by Section 906 has been provided to Veeco Instruments Inc. and will be retained by Veeco Instruments Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Veeco Instruments Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John F. Rein, Jr., Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN F. REIN, JR.
John F. Rein, Jr.
Executive Vice President and Chief Financial Officer
Veeco Instruments Inc.
October 29, 2008

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.