VEECO INSTRUMENTS INC

FORM 10-Q
(Quarterly Report)

Filed 08/07/03 for the Period Ending 06/30/03

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

VEECO INSTRUMENTS INC

FORM 10-Q
(Quarterly Report)

Filed 8/7/2003 For Period Ending 6/30/2003

Address	TERMINAL DR
	PLAINVIEW, New York 11803
Telephone	516-349-8300
CIK	0000103145
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

Commission file number 0-16244

VEECO INSTRUMENTS INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**11-2989601** (I.R.S. Employer Identification Number)
100 Sunnyside Blvd. **Woodbury, NY** (Address of principal executive offices)	**11797** (zip code)

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

Website: **www.veeco.com**

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

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

29,258,577 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on August 5, 2003.

SAFE HARBOR STATEMENT

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

- the dependence on principal customers and the cyclical nature of the data storage, telecommunications/wireless, semiconductor, research and industrial industries,
- rapid technological change and risks associated with the acceptance of new products by individual customers and by the marketplace,
- fluctuations in quarterly operating results,
- risk of cancellation or rescheduling of orders,
- risks associated with evaluating and pursuing acquisition opportunities and integrating acquired businesses into our business,
- loss of key management or our inability to attract and retain sufficient numbers of managerial, engineering and other technical persons,
- the highly competitive nature of industries in which the Company operates,
- changes in foreign currency exchange rates, and
- the other matters discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Report, in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and in the Company's Quarterly Report(s) on Form 10-Q filed since December 31, 2002.

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

Available Information

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

Internet Address

We maintain a website where additional information concerning our business and various upcoming events can be found. The address of our website is www.veeco.com. We provide a link on our website, under Investors—Financial Info—SEC Filings, through which investors can access our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports. These filings appear on our Internet website via links to the SEC site simultaneously to their filing.

VEECO INSTRUMENTS INC.

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Part I. Financial Information

Item 1. Financial Statements (Unaudited)

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

	Three Months Ended June 30,	
	2003	**2002**
Net sales	$ 73,449	$ 77,339
Cost of sales	40,655	42,137
Gross profit	32,794	35,202
Costs and expenses:		
Selling, general and administrative expense	18,568	19,335
Research and development expense	11,039	13,928
Amortization expense	3,159	3,172
Other income, net	(22)	(285)
Restructuring expense	789	1,050
Operating loss	(739)	(1,998)
Interest expense, net	1,886	1,477
Loss before income taxes	(2,625)	(3,475)
Income tax benefit	(1,490)	(1,856)
Net loss	$ (1,135)	$ (1,619)
Loss per common share:		
Net loss per common share	$ (0.04)	$ (0.06)
Diluted net loss per common share	$ (0.04)	$ (0.06)
Weighted average shares outstanding	29,247	29,083
Diluted weighted average shares outstanding	29,247	29,083

See Accompanying Notes.

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

	Six Months Ended June 30,	
	2003	**2002**
Net sales	$ 139,228	$ 157,488
Cost of sales	75,228	88,551
Gross profit	64,000	68,937
Costs and expenses:		
Selling, general and administrative expense	36,153	38,372
Research and development expense	22,527	27,257
Amortization expense	6,301	6,919
Other income, net	(895)	(236)
Restructuring expense	1,457	1,887
Operating loss	(1,543)	(5,262)
Interest expense, net	3,653	2,963
Loss from continuing operations before income taxes	(5,196)	(8,225)
Income tax benefit	(2,364)	(3,454)
Loss from continuing operations	(2,832)	(4,771)
Loss on disposal of discontinued operations, net of taxes	—	(346)
Net loss	$ (2,832)	$ (5,117)
Loss per common share:		
Loss per common share from continuing operations	$ (0.10)	$ (0.16)
Loss from discontinued operations	—	(0.02)
Net loss per common share	$ (0.10)	$ (0.18)
Diluted loss per common share from continuing operations	$ (0.10)	$ (0.16)
Loss from discontinued operations	—	(0.02)
Diluted net loss per common share	$ (0.10)	$ (0.18)
Weighted average shares outstanding	29,236	29,052
Diluted weighted average shares outstanding	29,236	29,052

See Accompanying Notes.

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

	June 30, 2003	December 31, 2002
	(Unaudited)	
Assets		

Current Assets:				
Cash and cash equivalents	$	210,361	$	214,295
Accounts receivable, less allowance for doubtful accounts of $3,234 in 2003 and $2,815 in 2002		69,250		68,777
Inventories		84,545		86,250
Prepaid expenses and other current assets		17,009		18,392
Deferred income taxes		27,326		31,549
Total current assets		408,491		419,263
Property, plant and equipment at cost, less accumulated depreciation of $59,776 in 2003 and $56,878 in 2002		54,887		55,872
Goodwill		33,782		30,658
Purchased technology, less accumulated amortization of $20,077 in 2003 and $15,287 in 2002		36,491		39,331
Other intangible assets, less accumulated amortization of $12,726 in 2003 and $11,215 in 2002		13,710		14,425
Long-term investments		13,207		17,483
Deferred income taxes		37,781		28,888
Other assets, net		713		898
Total assets	$	599,062	$	606,818
Liabilities and shareholders' equity				
Current Liabilities:				
Accounts payable	$	19,096	$	13,078
Accrued expenses		33,916		44,993
Deferred profit		3,245		5,966
Income taxes payable		5,584		3,808
Current portion of long-term debt		323		312
Total current liabilities		62,164		68,157
Long-term debt, net of current portion		230,104		230,273
Other non-current liabilities		937		815
Shareholders' equity		305,857		307,573
Total liabilities and shareholders' equity	$	599,062	$	606,818

See Accompanying Notes.

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

	Six Months Ended June 30,			
		2003		**2002**
Operating Activities				
Net loss	$	(2,832)	$	(5,117)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		11,420		14,167
Deferred income taxes		(4,656)		(6,922)
Stock option income tax benefit		100		962
Other		(738)		140
Loss on disposal of discontinued operations		—		346
Changes in operating assets and liabilities:				
Accounts receivable		350		19,148
Inventories		3,528		1,108
Accounts payable		5,946		1,324

Accrued expenses, deferred profit and other current liabilities	(12,405)	(25,033)
Other, net	1,017	(2,782)
Net cash provided by (used in) operating activities	1,730	(2,659)
Investing Activities		
Capital expenditures	(4,666)	(4,242)
Net assets of business acquired	(5,980)	—
Proceeds from sale of assets held for sale	1,132	—
Proceeds from sale of property, plant and equipment	—	1,790
Proceeds from sale of industrial measurement business	—	3,750
Net maturities of long-term investments	4,276	1,779
Net cash (used in) provided by investing activities	(5,238)	3,077
Financing Activities		
Proceeds from stock issuance	306	983
Repayment of long-term debt, net	(158)	(815)
Proceeds from issuance of long-term debt	—	20,000
Payment for debt issuance costs	—	(1,260)
Net cash provided by financing activities	148	18,908
Effect of exchange rates on cash and cash equivalents	(574)	(1,137)
Net change in cash and cash equivalents	(3,934)	18,189
Cash and cash equivalents at beginning of period	214,295	203,154
Cash and cash equivalents at end of period	$ 210,361	$ 221,343

See Accompanying Notes.

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

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. The effect of common equivalent shares of approximately 233,000 and 198,000 for the three and six months ended June 30, 2003, respectively, and 320,000 and 356,000 for the three and six months ended June 30, 2002, respectively, were antidilutive, therefore diluted loss per share is not presented for such periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Weighted average shares				

outstanding	29,247	29,083	29,236	29,052
Dilutive effect of stock options and warrants	—	—	—	—
Diluted weighted average shares outstanding	29,247	29,083	29,236	29,052

In addition, the effect of the assumed conversion of subordinated convertible notes into approximately 5.7 million common equivalent shares is antidilutive for the three and six months ended June 30, 2003 and 2002, respectively, and therefore is not included in the above diluted weighted average shares outstanding.

The Company accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No compensation expense is reflected in net loss, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions, under which compensation

expense would be recognized as incurred, of SFAS No. 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(In thousands, except per share amounts)			
Net loss, as reported	$ (1,135)	$ (1,619)	$ (2,832)	$ (5,117)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(4,131)	(4,979)	(8,562)	(9,800)
Pro forma net loss	$ (5,266)	$ (6,598)	$ (11,394)	$ (14,917)
Loss per common share:				
Net loss per common share, as reported	$ (0.04)	$ (0.06)	$ (0.10)	$ (0.18)
Net loss per common share, pro forma	$ (0.18)	$ (0.23)	$ (0.39)	$ (0.51)
Diluted net loss per common share, as reported	$ (0.04)	$ (0.06)	$ (0.10)	$ (0.18)
Diluted net loss per common share, pro forma	$ (0.18)	$ (0.23)	$ (0.39)	$ (0.51)

Reclassifications

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation.

Note 2—Balance Sheet Information

Inventories

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

	June 30, 2003	December 31, 2002
	(In thousands)	

Raw materials	$	47,838	$	48,657
Work-in-progress		19,561		21,763
Finished goods		17,146		15,830
	$	84,545	$	86,250

Accrued Warranty

The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time the related revenue is recognized. Factors that affect the Company's warranty liability include historical and anticipated rates of warranty claims and costs per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the

amount as necessary. Changes in the Company's warranty liability during the period are as follows (in thousands):

Balance as of January 1, 2003	$	4,481
Warranties issued during the period		1,115
Settlements made during the period		(1,242)
Changes in liability for pre-existing warranties during the period, including expirations		(70)
Balance as of June 30, 2003	$	4,284

Note 3—Segment Information

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

	Process Equipment	Metrology	Unallocated Corporate Amount	Restructuring Charges	Total
Three Months Ended June 30, 2003					
Net sales	$ 34,280	$ 39,169	$ —	$ —	$ 73,449
Income (loss) from continuing operations before interest, taxes and amortization	1,655	4,122	(2,568)	(789)	2,420
Three Months Ended June 30, 2002					
Net sales	36,923	40,416	—	—	77,339
Income (loss) from continuing operations before interest, taxes and amortization	(2,396)	6,695	(2,075)	(1,050)	1,174
Six Months Ended June 30, 2003					
Net sales	63,888	75,340	—	—	$ 139,228
Income (loss) from continuing operations before interest, taxes and amortization	2,165	8,962	(4,912)	(1,457)	4,758
Total assets	174,080	135,649	289,333	—	599,062
Six Months Ended June 30, 2002					
Net sales	81,775	75,713	—	—	157,488
Income (loss) from continuing operations before interest, taxes and amortization	(4,252)	11,816	(4,020)	(1,887)	1,657
Total assets	$ 309,312	$ 130,906	$ 312,347	$ —	$ 752,565

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

The following table outlines the components of goodwill by business segment at June 30, 2003 and December 31, 2002 (in thousands):

	June 30, 2003	December 31, 2002

Process Equipment	$	8,413	$	8,413
Metrology		25,369		22,245
Total	$	33,782	$	30,658

Note 4—Comprehensive (Loss) Income

As defined by the Financial Accounting Standards Board ("FASB"), comprehensive (loss) income is the change in equity of a business enterprise from transactions, other events, and circumstances from nonowner sources during a period. The Company incurred a total comprehensive (loss) income of ($0.1) million and ($2.1) million for the three and six months ended June 30, 2003, respectively, and $1.9 million and ($2.1) million for the three and six months ended June 30, 2002, respectively. The Company's comprehensive (loss) income is comprised of net loss, foreign currency translation adjustments and minimum pension liability.

Note 5—Recent Accounting Pronouncements

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 addresses the accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring*). It also substantially nullifies EITF Issue No. 88-10, *Costs Associated with Lease Modification or Termination.* SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The effect of the adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial position or results of operations.

Note 6—Restructuring

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

2003 Restructuring Charges

During the three months ended June 30, 2003, the Company incurred a restructuring charge of approximately $0.8 million related to the reduction in work force announced in the fourth quarter of 2002, as a result of the continued decline in the markets in which the Company operates. This charge includes severance related costs for approximately 50 employees, which included management, administration and manufacturing employees located at the Company's Fort Collins, Colorado, and Plainview and Rochester, New York process equipment operations, the San Diego and Santa Barbara, California and Tucson, Arizona metrology facilities and the sales and service office located in Munich, Germany. As of June 30, 2003, approximately $0.5 million has been paid and approximately $0.3 million remains accrued, with the majority of this balance to be paid by the end of 2003.

During the three months ended March 31, 2003, the Company incurred a restructuring charge of approximately $0.7 million related to the reduction in work force announced in the fourth quarter of 2002. This charge included severance related costs for approximately 20 employees, which included both management and manufacturing employees located at the Company's Fort Collins, Colorado and Plainview and Rochester, New York process equipment operations. As of June 30, 2003, approximately $0.5 million has been paid and approximately $0.2 million remains accrued, and is expected to be paid by the end of 2003.

A reconciliation of the liability for the restructuring charge for the first and second quarters of 2003 for severance related costs is as follows (in millions):

	Second Quarter 2003 Charge		First Quarter 2003 Charge	
Charged to accrual	$	0.8	$	0.7
Cash payments during the quarter ended March 31, 2003		—		0.3

Cash payments during the quarter ended June 30, 2003	0.5	0.2
Balance as of June 30, 2003	$ 0.3	$ 0.2

2002 Merger and Restructuring Charges

The Company recorded merger and restructuring charges of approximately $124.0 million during the fourth quarter of 2002. The $124.0 million charge consisted of a $15.0 million inventory write-down (included in cost of sales) in the process equipment segment, due to the rationalization and discontinuance of certain product lines, $2.6 million of personnel and business relocation costs, $6.4 million of merger-related expenses, $0.3 million for a prepayment penalty on the early extinguishment of debt and $99.7 million of asset impairment charges, primarily in the process equipment segment. The $99.7 million of asset impairment charges included a $94.4 million write-down of goodwill, a $3.5 million impairment of two buildings and a $1.8 million impairment of other fixed assets.

The $2.6 million charge for personnel and business relocation costs included severance costs of approximately $1.6 million and business relocation costs of approximately $1.0 million. The severance charges related to a workforce reduction of approximately 180 employees, located in all operations of the Company. The majority of the job classifications affected were in production, purchasing, engineering, service, sales and marketing and were concentrated in the process equipment segment. Business relocation costs of $1.0 million included costs related to rental payments and/or lease termination fees on lease agreements relating to locations vacated by the Company. In addition, the business relocation costs included operating costs of the Rochester facility that had ceased manufacturing operations as of December 31, 2002. These operating costs will be incurred while the building is being marketed for sale. As of June 30, 2003, the entire accrual of $1.6 million for termination benefits has been paid. As of June 30, 2003, approximately $0.7 million of business relocation costs have been paid and approximately $0.3 million remains accrued. Of the $0.3 million remaining, $0.1 million is expected to be paid by the end of 2003 and approximately $0.2 million in the aggregate is anticipated to be paid monthly through the third quarter of 2005.

On July 11, 2002, the Company entered into a merger agreement with FEI Company ("FEI"), headquartered in Hillsboro, Oregon. On January 8, 2003, the agreement was terminated. Veeco incurred approximately $6.4 million in expenses related to the proposed merger with FEI. Merger-related costs were initially accounted for as an asset, and the Company intended to allocate these direct costs to the purchase price of the acquisition. However, due to the termination of the merger agreement, these costs were written off during the fourth quarter of 2002. These costs included legal, accounting, tax, investment banking and regulatory fees and printing costs. As of June 30, 2003, the established accrual of $6.4 million has been expended, and an additional liability of $0.5 million has been accrued during the recent quarter due to unforeseen additional costs incurred.

During the three months ended September 30, 2002, the Company incurred a restructuring charge of approximately $0.9 million related to cost reduction efforts in response to continuing poor industry conditions and the decreased level of new orders. The $0.9 million charge included severance related costs for approximately 40 management and manufacturing employees principally located in the process equipment segment. This charge was offset in part by approximately $0.8 million of income related to

the settlement of a post-retirement benefit plan of the process equipment segment. As of June 30, 2003, approximately $0.7 million has been expended and the remaining $0.2 million has been deemed no longer necessary and has been reversed into the restructuring charge during the current quarter.

During the three months ended June 30, 2002, the Company incurred a restructuring charge of approximately $1.1 million related to the reductions in work force announced in the fourth quarter of 2001 and the first quarter of 2002. The $1.1 million charge included severance related costs for approximately 30 employees, which included both management and manufacturing employees principally located in the process equipment segment. As of June 30, 2003, approximately $0.9 million has been expended and approximately $0.2 million remains accrued, which is expected to be paid by the end of 2003.

A reconciliation of the fourth quarter 2002 liability for personnel, business relocation and merger related costs is as follows (in millions):

	Accrued Severance Costs	**Accrued Business Relocation Costs**	**Accrued Merger Costs**
Charged to accrual	$ 1.6	$ 1.0	$ 6.4
Cash payments through December 31, 2002	1.0	0.1	3.7
Cash payments during the quarter ended March 31, 2003	0.6	0.2	2.4
Cash payments during the quarter ended June 30, 2003	—	0.4	0.3
Charged to accrual during the quarter ended June 30, 2003	—	—	0.5
Balance as of June 30, 2003	$ 0.0	$ 0.3	$ 0.5

A reconciliation of the liabilities for the restructuring charges during the second and third quarters of 2002 for severance related costs is as follows (in millions):

	Third Quarter 2002 Charge	Second Quarter 2002 Charge
Charged to accrual	$ 0.9	$ 1.1
Cash payments through December 31, 2002	0.4	0.6
Cash payments during the quarter ended March 31, 2003	0.3	0.2
Cash payments during the quarter ended June 30, 2003	—	0.1
Reversal of prior period accrual during the quarter ended June 30, 2003	0.2	—
Balance as of June 30, 2003	$ 0.0	$ 0.2

2001 Restructuring Charges

During the year ended December 31, 2001, the Company recorded restructuring charges of approximately $20.0 million in response to the significant downturn in the telecommunications industry and the overall weak business environment. This downturn has affected Veeco's customers' ability to purchase capital equipment and was evidenced by a significant decline in the order rate for the Company's products. The $20.0 million charge consisted of a $13.6 million write-off of inventory (included in cost of sales) related to order cancellations and the rationalization of certain product lines, $3.0 million related to personnel costs and business relocation and $3.4 million was for the write-down of long-lived assets. Of the $13.6 million write-off of inventory, approximately $9.6 million was associated with the Company's process equipment segment, which sells primarily to the telecommunications and data storage industries, and approximately $4.0 million related to Veeco's

metrology segment, which sells mainly to the semiconductor, research and data storage industries. During 2001, Veeco experienced a significant amount of order cancellations for products for which many of the raw materials had been purchased prior to the cancellation date due to the amount of lead-time necessary to build many of these tools. The $3.0 million charge for personnel and business relocation costs principally related to plant consolidations and a workforce reduction of approximately 230 employees, located in all operations of the Company. The majority of the job classifications that were eliminated included manufacturing, sales and marketing, and was necessary due to the downturn in the economy. As of June 30, 2003, approximately $2.6 million of personnel and business relocation costs have been paid, $0.2 million relating to severance has been deemed unnecessary and has been reversed into the restructuring charge during the current quarter and $0.2 million related to business relocation remains accrued. This liability relates to rental payments on a lease agreement for space the Company has vacated and will be paid over the next three years. The write-down of long-lived assets to estimated fair value related primarily to the write-off of goodwill and intangible assets acquired in connection with the SLC product line of approximately $2.5 million, as well as the write-down of certain machinery and equipment of approximately $0.9 million, which was deemed to have no future value.

A reconciliation of the 2001 liability for personnel and business relocation costs is as follows (in millions):

	Accrued Severance Costs	Accrued Lease Costs
Charged to accrual	$ 2.6	$ 0.4
Cash payments through December 31, 2001	1.2	—
Cash payments through December 31, 2002	1.2	0.1
Cash payments during the quarter ended March 31, 2003	—	—
Cash payments during the quarter ended June 30, 2003	—	0.1
Reversal of prior period accrual during the quarter ended June 30, 2003	0.2	—
Balance as of June 30, 2003	$ 0.0	$ 0.2

Note 7—Recent Events

On June 5, 2003, the Company acquired the atomic force microscope (AFM) probe business of NanoDevices Incorporated ("NanoDevices"), based in Santa Barbara, California, for cash and a potential future cash earn out payment. NanoDevices supplies probes and other components of the nanometer scale in atomic force microscopy. The acquisition was accounted for using the purchase method of accounting.

Results of operations prior to the acquisition are not material to the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2003. The results of operations for NanoDevices for the period from June 6, 2003 through June 30, 2003 are included within the metrology operating segment of the Company in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2003.

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

Results of Operations.

Three Months Ended June 30, 2003 and 2002

Net sales of $73.4 million for the three months ended June 30, 2003, represent a decrease of $3.9 million, or 5%, from the 2002 comparable period of $77.3 million, resulting from a decrease in process equipment product sales of $2.7 million and a $1.2 million decline in metrology sales. Sales in the U.S., Europe, Japan and Asia Pacific, accounted for 37%, 18%, 22% and 23%, respectively, of the Company's net sales for the three months ended June 30, 2003. Sales in the U.S. decreased 2% from the prior year. This decrease was a result of an 8% decline in equipment sales, particularly sales of etch and deposition products, offset in part by a 4% increase in metrology sales. Sales in Europe and Asia Pacific decreased 20% and 13%, respectively. The reduction in Europe is principally as a result of a $3.3 million decline in sales of etch and deposition products, primarily to data storage customers. The decline in Asia Pacific is principally as a result of a 21% decrease in sales of atomic force microscopes (AFMs) with declines principally in the semiconductor industry, and a 32% drop off in sales of optical metrology products to data storage customers. Sales in Japan increased 18% from the 2002 comparable period, with metrology sales up 42% due to a 40% increase in the sale of AFMs, mostly to semiconductor customers. The Company believes that there will continue to be quarter-to-quarter variations in the geographic concentration of sales.

Process equipment sales of $34.3 million for the three months ended June 30, 2003, decreased by $2.7 million, or 7%, from the comparable 2002 period. The decrease in process equipment sales primarily resulted from a $4.8 million decline in sales of etch and deposition products, principally to the data storage industry, partially offset by a $2.2 million increase in the sale of molecular beam epitaxy (MBE) equipment to the wireless telecommunications and semiconductor industries. Metrology sales of $39.1 million for the three months ended June 30, 2003, declined slightly (3%) from comparable prior period sales of $40.4 million, a result of a $2.8 million drop in sales of optical metrology products, predominantly to the data storage industry, offset in part by a $1.5 million increase in sales of AFMs to research customers.

Veeco received $64.0 million of orders during the three months ended June 30, 2003, an 18% decrease compared to $78.2 million for the comparable 2002 period. Process equipment orders decreased 26% to $27.5 million, principally attributable to a decline in orders for etch and deposition equipment from data storage customers. Metrology orders for the three months ended June 30, 2003, decreased by 11% from the comparable 2002 period to $41.1 million. This is a result of a $6.4 million decrease in orders for AFM products, mainly to semiconductor customers, offset in part by a $1.7 million increase in orders for optical metrology equipment. The Company's second quarter book/bill ratio for 2003, which is calculated by dividing orders received in a given time period by revenue recognized in that same time period, was 0.87 to 1.

The order and sales declines continue to be a result of the general economic slowdown that has had a very significant impact on the telecommunications, data storage and semiconductor markets that the Company serves.

The Company's backlog of approximately $79.3 million at June 30, 2003, generally consists of product orders for which purchase orders have been received and which are scheduled for shipment within twelve months. Veeco schedules production of its systems based on order backlog and customer commitments. Because certain of the Company's orders require products to be shipped in the same quarter in which the order was received, and due to possible changes in delivery schedules, cancellations of orders and delays in shipment, the Company does not believe that the level of backlog at any point in time is an accurate indicator of the Company's future performance. Due to the current

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weak business environment, the Company may experience cancellation and/or rescheduling of orders. The Company had order cancellations of approximately $2.0 million during the quarter.

Gross profit for the three months ended June 30, 2003, was $32.8 million, or 44.6% of net sales, compared to 45.5% in the second quarter of 2002. The decline in gross margin percentage in 2003 is primarily attributed to the following factors: approximately $1.1 million from revenue and gross profit deferrals related to SAB 101, approximately $1.0 million from the sale of inventory at discounted prices pursuant to the Company's inventory reduction plan and approximately $1.0 million from product mix and other factors. Partially offsetting these factors was a $2.4 million reduction in direct labor and overhead spending, resulting from the plant consolidations initiated in the fourth quarter of 2002.

Selling, general and administrative expenses of $18.6 million for the three months ended June 30, 2003, decreased by approximately $0.8 million from the second quarter of 2002, primarily due to the effect of cost reduction efforts implemented by the Company beginning in the fourth quarter of 2002 and continuing through the second quarter of 2003, as well as a decrease in selling and commission expenses as a result of the decreased sales volume.

Research and development expenses of $11.0 million for the three months ended June 30, 2003, decreased by approximately $2.9 million, or 21%, from the comparable period of 2002, as a result of cost reduction efforts implemented by the Company, which included the elimination and consolidation of certain facilities. The decrease relates to spending reductions in all areas, other than AFM products.

Amortization expense totaled $3.2 million in both the three months ended June 30, 2003 and 2002, respectively. Amortization expense primarily relates to intangible assets acquired as part of the acquisitions of Applied Epi Inc. and TM Microscopes in the third quarter of 2001.

Other income was less than $0.1 million during the quarter ended June 30, 2003, compared to other income of $0.3 million in the second quarter of 2002, which resulted from foreign currency exchange gains.

During the three months ended June 30, 2003, the Company incurred a restructuring charge of approximately $0.8 million related to the reduction in work force announced in the fourth quarter of 2002, as a result of the continued decline in the markets in which the Company operates. This charge includes severance related costs for approximately 50 employees, which included management, administration and manufacturing employees located at the Company's Fort Collins, Colorado, and Plainview and Rochester, New York process equipment operations, the San Diego and Santa Barbara, California and Tucson, Arizona, metrology facilities and the sales and service office located in Munich, Germany. A charge of $1.1 million was taken in the comparable quarter of 2002, mostly for severance related costs for approximately 30 employees, including both management and manufacturing employees principally located in the process equipment segment. As of June 30, 2003, approximately $0.5 million of the 2003 charge has been paid and approximately $0.3 million remains accrued, with the majority of this balance to be paid by the end of 2003.

Interest expense, net, of $1.9 million for the three months ended June 30, 2003, increased $0.4 million from the comparable 2002 period due to a reduction in interest income earned as a result of lower interest rates and a lower cash balance during the quarter ended June 30, 2003.

Income taxes for the three months ended June 30, 2003 amounted to a $1.5 million income tax benefit, or 57% of loss before income taxes, as compared to $1.9 million, or 53% of loss before income taxes, for the same period of 2002. The higher than statutory effective benefit rate of 57% in 2003 and 53% in 2002 is a result of the impact of foreign and state tax benefits.

Six Months Ended June 30, 2003 and 2002

Net sales were $139.2 million for the six months ended June 30, 2003, representing a decrease of approximately $18.3 million, or 12%, from the comparable 2002 period. The decrease is primarily as a result of a $17.9 million, or 22%, decrease in process equipment sales. Sales in the U.S., Europe, Japan and Asia Pacific accounted for 38%, 18%, 22% and 22%, respectively, of the Company's net sales for the six months ended June 30, 2003. Sales in the U.S. decreased by 27%, principally attributable to a $19.4 million decrease in process equipment sales, $17.5 million in etch and deposition products, mostly to the data storage industry, as well as a $1.4 million decline in MBE sales, predominantly to the wireless telecommunications industry. Metrology sales in the U.S. were flat as compared to the 2002 comparable period. Sales in Europe and Asia Pacific declined by 9% and 3%, respectively. The reduction of European sales resulted principally from a 29% decline in the sale of process equipment products. Sales in Japan increased by 19%, primarily as a result of a $4.8 million increase in etch and deposition sales. Metrology sales in Japan remained relatively flat from the 2002 comparable period, increasing by 2% due to increased sales of AFMs.

Process equipment sales were $63.9 million for the six months ended June 30, 2003, a decrease of approximately $17.9 million, from the comparable 2002 period. This is principally as a result of a $17.0 million reduction in sales of etch and deposition products to the data storage industry. Metrology sales for the six months ended June 30, 2003, were $75.3 million, flat compared to the $75.7 million of sales during the 2002 comparable period.

Veeco received $136.7 million of orders for the six months ended June 30, 2003, an 8% decrease compared to $148.5 million of orders in the comparable 2002 period. Process equipment orders decreased 13% to $65.8 million, reflecting decreases in orders from telecommunications (14%), semiconductor (59%) and research (41%) customers, respectively. Data storage orders increased by 4% from the prior year. Metrology orders decreased 3% to $70.9 million due to a 5% decrease in AFM orders. The Company's book/bill ratio for the six months ended June 30, 2003 was 0.98 to 1.

Gross profit for the six months ended June 30, 2003, as a percentage of net sales increased to 46.0%, from 43.8% in the comparable 2002 period. The improvement in gross margin percentage in 2003 is primarily attributed to an approximately $4.0 million reduction in direct labor and overhead spending, resulting from the plant consolidations initiated in the fourth quarter of 2002, partially offset by the impact of lower final acceptances on bifurcated sales and product mix and other factors.

Selling, general and administrative expenses of $36.2 million for the six months ended June 30, 2003, represent a decrease of approximately $2.2 million from the comparable 2002 period, principally due to a decrease in selling and commission expense in response to the decreased sales volume, resulting in cost reduction actions implemented by the Company in the fourth quarter of 2002 and the first half of 2003.

Research and development expenses of $22.5 million for the six months ended June 30, 2003, represent a decrease of approximately $4.7 million, or 17%, from the comparable period of 2002, as a result of cost reduction actions principally in process equipment, which included the elimination and consolidation of certain facilities.

Amortization expense totaled $6.3 million for the six months ended June 30, 2003 compared with $6.9 million in the comparable 2002 period, due to the acquisition of intangible assets described in the three-month results. The decrease is primarily due to certain customer related intangible assets that had useful lives of less than one year and were fully amortized by the second quarter of 2002.

Other income, net, for the six months ended June 30, 2003, of $0.9 million principally resulted from a gain of $0.7 million realized from the sale of a process equipment fixed asset held for sale, which had been used as a laboratory tool plus, $0.2 million in foreign currency exchange gains compared to a $0.2 million exchange gain in the first half of 2002.

During the six months ended June 30, 2003, the Company incurred a restructuring charge of $1.5 million, primarily for severance related costs for approximately 70 people, including management, administration and manufacturing employees located at the Company's Fort Collins, Colorado, and Plainview and Rochester, New York process equipment operations, the San Diego and Santa Barbara, California and Tucson, Arizona, metrology facilities and the sales and service office located in Munich, Germany. These charges relate to a cost reduction program initiated in the fourth quarter of 2002. A charge of $1.9 million was taken in the comparable period of 2002, mostly for severance related costs for approximately 90 employees, including both management and manufacturing employees primarily located throughout all of the Company's process equipment businesses, as well as its Minnesota metrology operation. As of June 30, 2003, $0.5 million of the 2003 charge was still accrued. The majority of the balance is expected to be paid by the end of 2003.

Interest expense, net, of $3.7 million for the six months ended June 30, 2003, increased $0.7 million from the comparable 2002 period due to a reduction in interest income earned as a result of lower interest rates and a lower cash balance during the six months ended June 30, 2003.

Income taxes for the six months ended June 30, 2003, amounted to a $2.4 million income tax benefit, or 45% of loss before income taxes, as compared to $3.5 million, or 42% of loss before income taxes, for the same period of 2002. The higher than statutory effective benefit rate of 45% in 2003 and 42% in 2002 is a result of the impact of foreign and state tax benefits.

Liquidity and Capital Resources

Cash provided by operations was $1.7 million for the six months ended June 30, 2003, as compared to cash used in operations of $2.7 million for the comparable 2002 period. Net loss adjusted for non-cash items provided operating cash flows of $3.3 million for the six months ended June 30, 2003, compared to $3.6 million for the comparable 2002 period. The amount of net loss adjusted for non-cash items for the six months ended June 30, 2003, was offset by a decrease in net operating assets and liabilities of $1.6 million. Inventories decreased by approximately $3.5 million as a result of management's Company wide effort to reduce inventory levels. Accounts payable increased by $5.9 million, principally as a result of the timing of payments. Deferred profit decreased by $2.7 million, principally due to revenue recognition on tools that received final acceptance during the quarter, as well as a decrease in the number of tools that are deferred as of June 30, 2003. Other reductions in accrued expenses were a result of decreases in accrued restructuring charges of $5.6 million, customer deposits of $1.3 million, VAT and other taxes of $1.0 million and other accrued liability reductions of $1.8 million.

Cash used in investing activities of $5.2 million for the six months ended June 30, 2003 is a result of capital expenditures of $4.7 million and purchases of the net assets of acquired businesses of $6.0 million, offset in part by the maturity of long-term investments related to the Company's subordinated debt of $4.3 million, as well as proceeds from the sale of assets held for sale of $1.1 million.

At June 30, 2003, Veeco's contractual cash obligations and commitments relating to its debt obligations and lease payments are as follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 230,427	$ 323	$ 522	$ 5,975	$ 223,607
Operating leases	13,350	1,567	4,147	3,400	4,236
Letters of credit	12	12	—	—	—
	$ 243,789	$ 1,902	$ 4,669	$ 9,375	$ 227,843

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Company's $100.0 million credit facility (the "Facility") will be sufficient to meet the Company's projected working capital and other cash flow requirements for the next twelve months, as well as the Company's contractual obligations, detailed in the above table, over the next five years. As of June 30, 2003, the Company was in compliance with the covenants set forth in the Facility.

Application of Critical Accounting Policies

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

Revenue Recognition: The Company recognizes revenue when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable and collectibility is reasonably assured in accordance with SAB 101. For products produced according to the Company's published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer's specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount of any customer retention (generally 10% to 20%), which is not payable by the customer until installation is completed and final customer acceptance is achieved. The amount of customer retention is recorded in accounts receivable with a corresponding liability recorded in deferred profit. At June 30, 2003 and December 31, 2002, $1.6 million and $1.4 million, respectively, are recorded in accounts receivable and deferred profit pertaining to customer retentions. 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 applications of the Company's products, for new 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 entire contract amount. The profit on these transactions is deferred and recorded as deferred profit in the accompanying balance sheets. At June 30, 2003 and December 31, 2002, $1.6 million and $4.6 million, respectively, are recorded in deferred profit pertaining to shipments where revenue recognition has been deferred. Service and maintenance contract revenues are recorded as deferred revenue, which is included in other accrued expenses, and recognized as revenue on a

straight-line basis over the service period of the related contract. The Company provides for warranty costs at the time the related revenue is recognized.

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

Goodwill and Indefinite-Lived Intangible Asset Impairment: The Company has significant intangible assets related to goodwill and other acquired intangibles. In assessing the recoverability of the Company's goodwill and other indefinite-lived intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If it is determined that impairment indicators are present and that the assets will not be fully recoverable, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset 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 these assets not previously recorded.

Long Lived Asset Impairment: The carrying values of long-lived assets are periodically reviewed to determine if any impairment indicators are present. If it is determined that such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining depreciation period, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Veeco's net sales to foreign customers represented approximately 62% of Veeco's total net sales for both the three and six months ended June 30, 2003, respectively, and 64% and 54% for the three and six months ended June 30, 2002, respectively. The Company expects that net sales to foreign customers will continue to represent a large percentage of Veeco's total net sales. Veeco's net sales denominated in foreign currencies represented approximately 22% and 26% of Veeco's total net sales for the three and six months ended June 30, 2003, respectively, and 20% of Veeco's total net sales for both the three and six months ended June 30, 2002, respectively. The aggregate foreign currency exchange loss, net of realized gains and losses on forward exchange contracts, in both the second quarter of 2003 and 2002, respectively, was immaterial. The aggregate foreign currency exchange gain included in determining consolidated results of operations was $0.2 million, net of $0.5 million of realized hedging losses on forward exchange contracts in both the six months ended June 30, 2003 and June 30, 2002, respectively. Veeco is exposed to financial market risks, including changes in foreign

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currency exchange rates. The changes in currency exchange rates that have had the largest impact on translating Veeco's international operating profit related to the exchange rates for the Japanese Yen and the Euro. To mitigate these risks, Veeco uses derivative financial instruments. Veeco does not use derivative financial instruments for speculative or trading purposes. The Company enters into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany balances and other known currency exposures. The average notional amount of such contracts was approximately $3.4 million and $3.0 million for the three and six months ended June 30, 2003, respectively. As of June 30, 2003, there were no open forward contracts.

Item 4. Controls and Procedures.

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

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. There have not been any changes in the Company's internal controls over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

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

The annual meeting of stockholders of the Company was held on May 9, 2003. The matters voted on at the meeting were: (a) the election of three directors: (i) Edward H. Braun, (ii) Richard A. D'Amore and (iii) Douglas A. Kingsley; (b) approval of an amendment to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan; (c) approval of an amendment to the Veeco Instruments Inc. 2000 Stock Option Plan; (d) approval of a one-time exchange of certain outstanding stock options for a lesser number of new stock options to be granted at least six months and one day from the cancellation of the surrendered options; and (e) ratification of the Board's appointment of Ernst & Young as the independent auditors of the Company's financial statements for the year ending December 31, 2003. As of the record date for the meeting, there were 29,225,051

shares of common stock outstanding, each of which was entitled to one vote with respect to each of the matters voted on at the meeting. The results of the voting were as follows:

Matter	For	Withheld	Broker Non-Votes
(a)(i)	21,447,239	1,609,819	0
(a)(ii)	21,068,249	1,988,809	0
(a)(iii)	21,172,136	1,884,922	0

Matter	For	Against	Abstained	Broker Non-Votes
(b)	21,944,315	782,821	329,922	0
(c)	16,762,868	5,960,193	333,997	0
(d)	17,160,425	5,860,965	35,668	0
(e)	22,395,314	608,457	53,287	0

Item 6. Exhibits and Reports on Form 8-K.

Exhibits:

(a) Exhibits

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

Number	Description	Incorporated by Reference to the Following Document:
10.1	Amendment No. 1 to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan, effective January 1, 2003.	*
10.2	Amendment No. 3 to the Veeco Instruments Inc. 2000 Stock Option Plan, effective May 9, 2003.	*
10.3	Employment Agreement dated as of April 1, 2003 between Veeco Instruments Inc. and Edward H. Braun.	*
10.4	Employment Agreement dated as of April 1, 2003 between Veeco Instruments Inc. and Don R. Kania.	*
10.5	Employment Agreement dated as of April 1, 2003 between Veeco Instruments Inc. and John F. Rein, Jr.	*
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1	Certification of Chief Executive Officer pursuant to	

	18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

* Filed herewith

(b) Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K on July 29, 2003 in connection with the issuance of its press release announcing the results for the three and six month periods ended June 30, 2003.

SIGNATURES

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

Date: August 7, 2003

VEECO INSTRUMENTS INC.

By: /s/ EDWARD H. BRAUN

Edward H. Braun
Chairman and Chief Executive Officer

By: /s/ JOHN F. REIN, JR.

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

EXHIBIT INDEX

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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

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Exhibit 10.1

**AMENDMENT NO. 1 TO
VEECO INSTRUMENTS INC.
FIRST AMENDED AND RESTATED
EMPLOYEE STOCK PURCHASE PLAN**

Effective January 1, 2003

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

3.02 Number of Shares Subject to Plan

(a) The total number of shares of Stock available for Offerings under the Plan shall be 750,000 shares, subject to adjustment as set forth in paragraph (b) below. Such Stock may be authorized and unissued shares, treasury shares, or shares previously issued and reacquired by the Company. Any shares for which an Offering to purchase expires or is terminated or canceled may again be made subject to Offerings under the Plan.

* * * * *

This Amendment was approved by Veeco's Board of Directors on October 24, 2002, and by its stockholders on May 9, 2003.

Exhibit 10.2

AMENDMENT NO. 3 TO
VEECO INSTRUMENTS INC.
2000 STOCK OPTION PLAN

Effective May 9, 2003

Section 5(a) of the Veeco Instruments Inc. 2000 Stock Option Plan, as amended (the "Plan"), is hereby amended to read, in its entirety, as follows:

5. Grant of Awards; Shares Subject to the Plan

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

(a) Subject to Section 9, the aggregate number of shares of Stock in respect of which Options may be granted under the Plan shall not exceed 5,030,000;

* * * * *

This Amendment was approved by Veeco's Compensation Committee on March 31, 2003, by its Board of Directors on April 1, 2003, and by its stockholders on May 9, 2003.

Exhibit 10.3

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT effective April 1, 2003, is by and between Veeco Instruments Inc., a Delaware corporation (the "Company" or "Employer"), and Edward H. Braun ("Executive").

The Company and Executive hereby agree as follows:

1. *Definitions.* As used herein, the following definitions shall apply:

" *Board's Designee* " shall mean the person to whom the Executive shall report, as designated by the Board from time to time. The initial Board Designee is set forth on the signature page hereto.

" *Disability* " shall mean the inability of Executive (whether due to accident, sickness or other cause) to perform his designated responsibilities for the Company for a period that would entitle Executive to qualify for long-term disability benefits under the Company's then-current long-term disability insurance program or, in the absence of such a program, for a period of 90 consecutive days. Disability of Executive shall be determined by the Board or the Board's Designee.

" *Severance Period* " shall mean the Severance Period specified on the signature page hereto.

Termination for " *Cause* " shall mean a termination based on (i) Executive's willful and substantial misconduct in the performance of his duties, (ii) Executive'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 Executive's material breach of any of the agreements contained in Sections 5, 6 or 7 hereof, (iv) the commission by Executive of any material fraudulent act with respect to the business and affairs of the Company or any subsidiary or affiliate thereof or (v) Executive's conviction of (or plea of *nolo contendere* to) a crime constituting a felony. The Company may terminate Executive's employment for Cause only with the approval of a majority of the Board.

Termination for " *Good Reason* " shall mean termination by Executive of his employment with the Company hereunder based on:

(a) an involuntary diminution in the Executive's position, title, responsibilities, authority or reporting responsibilities;

(b) a reduction by the Company in Executive's base salary (other than a salary reduction made as part of a salary reduction program affecting employees similarly situated to Executive generally);

(c) a significant reduction by the Company in total benefits available to Executive under cash incentive, stock incentive and other employee benefit plans (other than a reduction in benefits affecting employees similarly situated to Executive generally);

(d) an involuntary relocation of the Executive's primary place of work by more than 50 miles from its then current location (it being understood that Executive's decision not to relocate would not be a basis for Termination for Cause);

(e) the Executive involuntarily ceases to be a member of the Board; or

(f) the breach by the Company of any of its material obligations under this Agreement.

2. *Employment.*

(a) *General.* The Company hereby employs the Executive in the position set forth on the signature page hereto or such other position as the Company and Executive may mutually agree, and the Executive hereby accepts such employment by the Company, upon the terms and conditions set forth herein. The Executive will faithfully perform the duties and responsibilities of such office, as they

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may be assigned from time to time by the Board of Directors of the Company (the "Board") or the Board's Designee. In addition, while Executive is employed by the Company, the Company will use its best efforts to ensure the Executive is a member of the Board. The Executive shall devote his full business time, attention and energy to the business of the Company. The Executive will not be engaged in any other business activity which, in the reasonable judgment of the Board or the Board's Designee, conflicts with the duties of the Executive hereunder, whether or not such activity is pursued for gain, profit or other pecuniary advantage. The parties agree that Executive's employment with the Company constitutes "at-will" employment which may be terminated by either party at any time, upon written notice to the other, with or without cause or for any or no cause. As described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment.

(b) *Base Salary.* The Company will pay Executive an annual base salary of not less than the amount specified as the Initial Base Salary on the signature page hereto, payable in accordance with the Company's normal payroll policy.

(c) *Bonus.* The Executive shall be eligible to participate in annual cash incentive plans as established from time to time by the Compensation Committee of the Board (the "Committee") and subject to achievement of the performance goals specified thereunder.

(d) *Benefits; Stock Options.* In addition to the salary and bonus referred to above, the Executive shall be entitled to participate in such employee benefit plans or programs of the Company, and shall be entitled to such other fringe benefits, as are from time to time made available by the Company generally to employees of the Executive's position, tenure, salary, and other qualifications. Without limiting the generality of the foregoing, the Executive shall be eligible for such awards, if any, under the Company's stock option plan as shall be granted to the Executive by the Committee or other appropriate designee of the Board acting in its sole discretion. During the Employment Period, the Company will pay the Executive a monthly car allowance in an amount not less than that previously paid by the Company to Executive. The Executive acknowledges and agrees that the Company does not guarantee the adoption or continuance of any particular employee benefit plan or program or other fringe benefit during the Employment Period, and participation by the Executive in any such plan or program shall be subject to the rules and regulations applicable thereto.

(e) *Reimbursement of Expenses.* The Company will reimburse the Executive, in accordance with the practices in effect from time to time for other officers or staff personnel of the Company, for all reasonable and necessary traveling expenses and other disbursements incurred by the Executive for or on behalf of the Company in the performance of the Executive's duties hereunder, upon presentation by the Executive to the Company of appropriate vouchers or documentation.

3. *Compensation Upon Termination.* If Executive's employment with the Company terminates for any reason (including, death or Disability), other than pursuant to a termination of Executive's employment for Cause or a resignation by the Executive without Good Reason, and contingent upon Executive's compliance with this Agreement and execution of the Release of Claims (as provided in Section 4 below), without revocation, Executive (or, if applicable, his estate) shall be entitled to the following benefits:

(a) The Company shall pay Executive severance in an amount equal to the amount of Executive's annual base salary as in effect immediately prior to such termination (but without regard to any salary reduction program then in place) which would have been payable over the Severance Period absent such termination. This severance shall be payable over the Severance Period in equal installments on Employer's regular pay days, in each case commencing on the Company's first pay day which is at least 21 days after the later of (i) expiration of the applicable revocation period following execution of the Release of Claims (without revocation) and (ii) the termination date.

(b) Executive shall be entitled to receive a pro rata portion of the bonus Executive would have received for the year in which termination occurs under annual cash incentive plans in effect at the time of termination based on Executive's and the Company's performance relative to the goals under such plans (less amounts previously paid). Such amount shall be payable on the later of: (i) expiration of the applicable revocation period following execution of the Release of Claims (without revocation) and (ii) the same date(s) that the Company makes it bonus payments to employees generally with regard to such year.

(c) For a period of five years after such termination, the Executive shall be entitled to participate in all group health and insurance programs and all other benefits, fringe benefits and perquisites available generally to senior executives of the company (including in the case of health programs, continued coverage for the Executive's spouse and eligible dependents). In the event that the Executive's participation in any such plan or program is prohibited by operation of law or by the terms of such plan or program as in effect immediately preceding the date of termination of the Employment Period, the Company shall arrange to provide the Executive with benefits substantially similar to those which the Executive would have been entitled to receive under such plans and programs.

(d) Any options to purchase shares of the Company's stock which were granted to Executive on or after the date hereof and which are held by Executive as of the date of termination that were not vested and exercisable as of such date shall become immediately and fully vested and exercisable as of such date (provided that options granted to Executive between April 3, 2000 and the day prior to the date hereof shall be treated as provided in the Employment Agreement dated April 3, 2000 between the Company and Executive).

(e) Executive shall retain the right to exercise any options to purchase shares of the Company's stock which were granted to Executive on or after the date hereof and which are held by Executive as of the date of termination until the earlier of (a) the end of the Severance Period following the date of such termination and (b) the expiration of the original full term of each such option (provided that options granted to Executive between April 3, 2000 and the day prior to the date hereof shall be treated as provided in the Employment Agreement dated April 3, 2000 between the Company and Executive).

4. *Release of Claims.* Receipt of the benefits described in Section 3 is conditioned upon the execution by Executive (without revocation) of a general release and waiver of claims against the Company in a form satisfactory to the Company. In the case of termination on account of death or Disability, such general release and waiver of claims may be provided by Executive's personal representative or in another manner reasonably satisfactory to the Company.

5. *Confidentiality and Assignment of Inventions.*

(a) *Confidentiality.* During the term of Executive's employment with Employer and for five years thereafter, Executive will not use or disclose to any individual or entity any Confidential Information (as defined below) except (i) in the performance of Executive's duties for Employer, (ii) as authorized in writing by Employer, or (iii) as required by law or legal process, provided, that, prior written notice of such required disclosure is provided to Employer and, provided, further, that, all reasonable efforts to preserve the confidentiality of such information shall be made. As used herein, " *Confidential Information* " shall mean information that (i) is used or potentially useful in Employer's business, (ii) Employer treats as proprietary, private or confidential, and (iii) is not generally known to the public. "Confidential Information" includes, without limitation to, information relating to Employer's products or services, processing, manufacturing, selling, customer lists, call lists, customer data, memoranda, notes, records, technical data, sketches, plans, drawings, chemical formulae, trade secrets, composition of products, research and development data, sources of supply and material, operating and cost data, financial information, and information contained in manuals or memoranda. "Confidential

Information" also includes proprietary and/or confidential information of Employer's customers, suppliers and trading partners who may share such information with Employer pursuant to a confidentiality agreement or otherwise. The Executive agrees to treat all such customer, supplier or trading partner information as "Confidential Information" hereunder.

(b) *Inventions.* (i) Attached as *Appendix A* hereto is a compete and accurate list of each invention, discovery, idea, improvement or application (each, an "Invention") whether or not patentable, conceived, developed, created or made by Executive, either alone or with others, prior to employment with Employer. Except as set forth on *Appendix A* , Executive has no unpatented Inventions which are to be withheld from this Agreement and all present or future Inventions of Executive are subject to assignment to Employer hereunder.

(ii) Executive shall promptly advise Employer, in writing, of each Invention, whether or not patentable, which is in any way or manner related to the business of Employer or resulting from or was suggested by any work done for Employer and which is conceived, developed, created or made by Executive, alone or with others, (i) during his or her employment with Employer or (ii) within two years after the termination of Executive's employment with Employer but which is based on Employer's trade secrets or Confidential Information (each, an "Employer Related Invention"). Each Employer Related Invention shall become the sole and exclusive property of Employer. Executive agrees to disclose the same promptly to Employer, to execute all documents requested by Employer for vesting in it the entire right, title and interest in and to the same, to execute all documents requested by Employer for filing and prosecuting such applications for patents, copyrights and/or trademarks as Employer, in its sole discretion may desire to prosecute, and to give Employer all the assistance it reasonably requires, including the giving of testimony in any suit, action or proceeding, in order to obtain, maintain and protect Employer's right therein and thereto.

(iii) The assignment of inventions contained herein shall not apply to an invention that the Executive develops entirely on his or her own time without using the Employer's equipment, supplies, facilities or trade secret information except for those inventions that either: (1) relate at the time of conception or reduction to practice of the invention to the Employer's business, or actual or demonstrably anticipated research or development of the Employer; or (2) result from any work performed by the Executive for the Employer.

(c) *Independent Obligations.* Executive acknowledges and agrees that the obligations and covenants under this Section 5 are intended to be, and shall be construed as, agreements separate and independent from other terms and provisions of his employment. The existence of any claim or cause of action by Executive against Employer, whether predicated on Executive's employment or otherwise, shall not constitute a defense to the enforcement by Employer of said covenants.

(d) *Survival.* In the event of termination of employment by either party, the provisions of this Section 5 will remain in effect. Upon termination, Executive will immediately deliver to Employer all property belonging to Employer then in the Executive's possession or control, including all Documents embodying Confidential Information. As used herein, Documents" shall mean originals or copies of files, memoranda, correspondence, notes, photographs, slides, overheads, audio or video tapes, cassettes, or disks, and records maintained on computer or other electronic media.

6. *Non-Competition.* For the duration of Executive's employment with the Company and, if severance is payable under Section 3 following the termination of such employment, for the Severance Period (collectively, the "Noncompete Period"), Executive will not, without the prior written consent of the Company, directly or indirectly, engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing or control of, be employed by, associated with, or in any manner connected with, lend Executive's name to, lend Executive's credit to or render services or advice to, any business whose products or activities compete in whole or in part

with the former, current or currently contemplated products or activities of the Company or any of its subsidiaries, in any state of the United States or in any country in which the Company or any of its subsidiaries sells products or conducts business; *provided* , *however* , that Executive may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended. Executive agrees that this covenant is reasonable with respect to its duration, geographical area, and scope. During the Noncompete Period, Executive will, within ten days after accepting any employment, advise the Company of the identity of any employer of Executive. Receipt of the benefits provided under Section 3 is conditioned upon compliance by Executive with this Section.

7. *Non-Solicitation; Non-Hire.* For the Noncompete Period, Executive hereby agrees that Executive will not, directly or indirectly, either for himself or any other person: (a) induce or attempt to induce any employee of the Company or any of its subsidiaries to leave the employ of the Company or such subsidiary, (b) in any way interfere with the relationship between the Company and its subsidiaries and any employee of the Company or any of its subsidiaries, (c) employ, or otherwise engage as an employee, independent contractor or otherwise, any current or former employee of the Company or any of its subsidiaries, other than such former employees who have not worked for the Company or any of its subsidiaries in the prior 12 months; (d) induce or attempt to induce any customer, supplier, licensee or business relation of the Company or any of its subsidiaries to cease doing business with the Company or such subsidiary, or in any way interfere with the relationship between the Company and its subsidiaries and any customer, supplier, licensee or business relation of the Company or any of its subsidiaries; or (e) solicit the business of any person known to Executive to be a customer of the Company or any of its subsidiaries, whether or not Executive had personal contact with such person, with respect to products or activities which compete in whole or in part with the former,