

# VEECO INSTRUMENTS INC

## FORM 10-Q (Quarterly Report)

Filed 05/09/02 for the Period Ending 03/31/02

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 5/9/2002 For Period Ending 3/31/2002

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2002

Commission file number 0-16244

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## VEECO INSTRUMENTS INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**11-2989601**

(I.R.S. Employer  
Identification Number)

**100 Sunnyside Boulevard  
Woodbury, New York**

(Address of principal executive offices)

**11797**

(Zip Code)

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

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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 ☐

29,043,674 shares of common stock, \$0.01 par value per share, were outstanding as of the close of business on April 23, 2002.

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### 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, optical and wireless telecommunications and semiconductor industries,

- fluctuations in quarterly operating results,
- rapid technological change and risks associated with the acceptance of new products by individual customers and by the marketplace,
- risk of cancellation or rescheduling of orders,
- the highly competitive nature of industries in which the Company operates,
- changes in foreign currency exchange rates, and
- the risk factors and other matters discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

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.

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## VEECO INSTRUMENTS INC.

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited)

**Condensed Consolidated Statements of Operations**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
Net sales	\$ 80,149	\$ 125,386
Cost of sales	46,414	66,696
Gross profit	33,735	58,690
Costs and expenses:		
Research and development expense	13,329	15,107
Selling, general and administrative expense	19,037	21,134
Amortization expense	3,747	1,436
Other expense, net	49	1,406
Restructuring expense	837	—
Operating (loss) income	(3,264)	19,607
Interest expense (income), net	1,486	(767)
(Loss) income from continuing operations before income taxes	(4,750)	20,374
Income tax (benefit) provision	(1,598)	7,158
(Loss) income from continuing operations	(3,152)	13,216
Discontinued operations:		
Loss from discontinued operations, net of taxes	—	(343)
Loss on the disposal of discontinued operations, net of taxes	(346)	—
Net (loss) income	\$ (3,498)	\$ 12,873
(Loss) earnings per common share:		
Net (loss) income per common share from continuing operations	\$ (0.11)	\$ 0.54
Loss from discontinued operations	(0.01)	(0.02)
Net (loss) income per common share	\$ (0.12)	\$ 0.52
Diluted (loss) income per common share from continuing operations	\$ (0.11)	\$ 0.52
Loss from discontinued operations	(0.01)	(0.01)
Diluted net (loss) income per common share	\$ (0.12)	\$ 0.51
Weighted average shares outstanding	29,021	24,678
Diluted weighted average shares outstanding	29,021	25,230

*See accompanying notes.*

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

March 31, 2002	December 31, 2001
(Unaudited)	

<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$	219,108	\$ 203,154
Accounts receivable, net		69,815	88,449
Inventories		99,273	101,419
Prepaid expenses and other current assets		15,611	22,636
Deferred income taxes		49,549	46,832
Total current assets		453,356	462,490
Property, plant and equipment at cost, net		76,699	78,547
Goodwill		125,585	125,585
Long-term investments		34,912	23,519
Other assets, net		63,054	65,378
Total assets	\$	753,606	\$ 755,519
<b>Liabilities and shareholders' equity</b>			
Current Liabilities:			
Accounts payable		19,809	19,657
Accrued expenses		49,163	58,070
Deferred gross profit		9,265	14,566
Other current liabilities		7,875	12,174
Total current liabilities		86,112	104,467
Long-term debt, net of current portion		235,156	215,519
Other non-current liabilities		11,932	11,562
Shareholders' equity		420,406	423,971
Total liabilities and shareholders' equity	\$	753,606	\$ 755,519

See accompanying notes.

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

	Three Months Ended March 31,	
	2002	2001
<b>Net cash provided by operating activities</b>	\$ 1,783	\$ 2,049
<b>Investing Activities</b>		
Capital expenditures	(2,078)	(4,451)
Payment for net assets of businesses acquired	—	(1,791)
Net purchases of short-term investments	—	(391)
Net purchases of long-term investments	(2,387)	—
Net cash used in investing activities	(4,465)	(6,633)
<b>Financing Activities</b>		
Proceeds from stock issuance	255	272
Repayment of long-term debt, net	(449)	(507)
Proceeds from issuance of long-term debt	20,000	—
Payment for debt issuance costs	(1,185)	—

Net cash provided by (used in) financing activities	18,621	(235)
Effect of exchange rates on cash and cash equivalents	15	2,253
	<u>          </u>	<u>          </u>
Net change in cash and cash equivalents	15,954	(2,566)
Cash and cash equivalents at beginning of period	203,154	63,419
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 219,108	\$ 60,853
	<u>          </u>	<u>          </u>

See accompanying notes.

## VEECO INSTRUMENTS INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

Earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and common equivalent shares outstanding during the period. The effect of common equivalent shares for the three months ended March 31, 2002 was antidilutive, therefore diluted earnings per share is not presented for such period.

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

	Three Months Ended March 31,	
	2002	2001
	<u>          </u>	<u>          </u>
	(In thousands)	
Weighted average shares outstanding	29,021	24,678
Dilutive effect of stock options	—	552
	<u>          </u>	<u>          </u>
Diluted weighted average shares outstanding	29,021	25,230
	<u>          </u>	<u>          </u>

In addition, the assumed conversion of subordinated convertible notes is anti-dilutive for the three months ended March 31, 2002 and therefore is not included in the above diluted weighted average shares outstanding.

#### 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:

	March 31, 2002	December 31, 2001
	<u>          </u>	<u>          </u>
	(In thousands)	
Raw materials	\$ 56,128	\$ 59,065
Work-in-progress	22,318	26,068

Finished goods	20,827	16,286
	<u>\$ 99,273</u>	<u>\$ 101,419</u>

### Other Balance Sheet Information

	March 31, 2002	December 31, 2001
	<u>(In thousands)</u>	<u>(In thousands)</u>
Allowance for doubtful accounts	\$ 3,253	\$ 3,350
Accumulated depreciation and amortization of property, plant and equipment	\$ 58,110	\$ 54,826
Accumulated amortization of intangible assets	\$ 16,926	\$ 13,179

### Note 3—Segment Information

The following represents the reportable product segments of the Company as of and for the three months ended March 31, 2002 and 2001, in thousands:

	Net Sales		Income (loss) before interest, taxes and amortization		Total Assets	
	2002	2001	2002	2001	2002	2001
Process Equipment	\$ 44,852	\$ 80,297	\$ (1,856)	\$ 16,302	\$ 308,567	\$ 180,653
Metrology	35,297	45,089	5,121	7,349	136,753	106,441
Restructuring expense	—	—	(837)	—	—	—
Unallocated Corporate amount	—	—	(1,945)	(2,608)	308,286	159,809
Total	<u>\$ 80,149</u>	<u>\$ 125,386</u>	<u>\$ 483</u>	<u>\$ 21,043</u>	<u>\$ 753,606</u>	<u>\$ 446,903</u>

### Note 4—Comprehensive Income (Loss)

Total comprehensive (loss) income was (\$3.9) million and \$12.0 million for the three months ended March 31, 2002 and 2001, respectively. Other comprehensive income is comprised of foreign currency translation adjustments, minimum pension liability and net unrealized holding gains and losses on available-for-sale securities.

### Note 5—Recent Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. The intangible assets that are classified as goodwill and those with indefinite lives are no longer amortized under the provisions of this standard. Intangible assets with determinable lives will continue to be amortized over their estimated useful life. The standard also requires that an impairment test be performed to support the carrying value of goodwill and indefinite lived intangible assets at least annually.

The Company completed the first of the required impairment tests of goodwill and indefinite lived intangible assets in the first quarter of 2002. The Company utilized an independent appraisal as part of its evaluation process. The Company has reviewed its business and determined that four reporting units be reviewed for impairment in accordance with the standard. The four reporting units are New York Equipment and Telecommunications, which comprise the process equipment operating segment, and AFM and Optical, which comprise the metrology operating segment. Based upon the independent appraisal and the judgment of management, it was determined that there is no impairment to goodwill as of January 1, 2002.

The following table outlines the components of goodwill and intangible assets by business segment at March 31, 2002 after the adoption of the standard, in thousands:



	Process Equipment Segment	Metrology Segment	Unallocated Corporate	Total
Goodwill	\$ 102,808	\$ 22,777	\$ —	\$ 125,585
Intangible assets	42,210	12,606	7,325	62,141
<b>Total</b>	<b>\$ 145,018</b>	<b>\$ 35,383</b>	<b>\$ 7,325</b>	<b>\$ 187,726</b>

Net income for the three months ended March 31, 2001, includes approximately \$0.4 million of goodwill amortization expense. Excluding this amount would have resulted in net income per common share and diluted net income per common share of \$0.54 and \$0.53, respectively, for the three months ended March 31, 2001.

In January 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (FAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. Adoption of this Statement did not have an impact on the Company's consolidated financial position or results of operations.

## Note 6—Recent Events

### *Restructuring*

During the three months ended March 31, 2002, the Company incurred a restructuring charge of \$0.8 million related to the reduction in work force announced in the fourth quarter of 2001. This charge includes severance related costs for approximately 60 employees which included both management and manufacturing employees located at the Company's Minnesota, Plainview and Rochester operations. As of March 31, 2002, approximately \$0.3 million has been expended and approximately \$0.5 million remains accrued.

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. These charges consisted of a \$13.6 million write-off of inventory related to order cancellations and the rationalization of certain product lines, \$3.0 million related to personnel and business relocation costs and \$3.4 million related to the write-down of long-lived assets. The \$3.0 million charge for personnel and business relocation costs principally related to plant consolidations and a workforce reduction of approximately 230 employees, which included both management and manufacturing employees located in all operations of the Company. As of March 31, 2002, approximately \$1.7 million of the \$3.0 million charge for relocation and termination benefits has been paid and approximately \$1.3 million remains accrued.

### *Discontinued Operations*

In January 2002, Veeco signed a letter of intent to sell the remainder of its industrial measurement business. This is the measurement date of the disposal and accordingly, the Company has classified the industrial measurement business as a discontinued operation. During the three months ended March 31, 2002, the Company recorded an additional loss on the disposal of the discontinued operations of \$0.3 million, net of taxes of approximately \$0.2 million. The net assets held for sale of approximately \$4.0 million are included in prepaid expenses and other current assets in the accompanying March 31, 2002 Condensed Consolidated Balance Sheet. The closing of the sale is expected to take place in the second quarter of 2002.

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

### Results of Operations.

#### Three Months Ended March 31, 2002 and 2001

Net sales of \$80.1 million for the three months ended March 31, 2002, represents a decrease of 36% from the 2001 comparable period net sales of \$125.4 million, reflecting a decrease in both process equipment and metrology sales. Sales in the U.S., Europe, Japan and Asia Pacific, accounted for 55%, 14%, 17% and 14%, respectively, of the Company's net sales for the three months ended March 31, 2002. Sales in the U.S. decreased 40% from the comparable 2001 period due to a 43% decline in U.S. process equipment sales, particularly in sales of optical filter deposition products to the telecommunications industry, and a 31% decrease in U.S. metrology sales. This decrease in U.S. sales is offset in part by \$9.3 million of sales of molecular beam epitaxy (MBE) equipment produced by Applied Epi, which was acquired in September 2001. Sales in Europe decreased 29% from the comparable 2001 period, due primarily to a decline in etch and deposition equipment sales to the data storage industry. Sales in Japan decreased 49% from the comparable 2001 period as a result of a decline in sales for both etch and deposition

equipment and atomic force microscopes (AFMs). Sales in Asia Pacific remained relatively flat from the comparable 2001 period. The Company believes that there will continue to be quarter-to-quarter variations in the geographic concentration of sales.

Process equipment sales of \$44.8 million for the three months ended March 31, 2002, represents a decrease of \$35.5 million, or 44%, from the comparable 2001 period, due primarily to an 88% decrease in optical filter deposition sales to the telecommunications industry, as well as a 30% decline in etch and deposition sales, principally to the data storage industry. Metrology sales of \$35.3 million for the three months ended March 31, 2002 decreased by \$9.8 million, or 22%, over the comparable 2001 period, due primarily to a 43% decline in sales of optical metrology products, as well as a 15% decrease in the sale of AFMs.

Veeco received \$70.2 million of orders during the three months ended March 31, 2002, a 36% decrease compared to \$110.2 million of orders for the comparable 2001 period. Process equipment orders decreased 47% to \$38.4 million, principally reflecting a decrease in orders for the telecommunications industry, as well as a decrease in orders for etch and deposition systems by data storage customers. Metrology orders decreased by 15% to \$31.8 million, reflecting a decrease in bookings for both the Company's AFM and optical metrology line of products. The book/bill ratio for the first quarter of 2002 was 0.88.

The order and sales declines are 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 generally consists of product orders for which a purchase order has 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 weak business environment, the Company may experience cancellation and/or rescheduling of orders.

Gross profit for the three months ended March 31, 2002 of \$33.7 million, represents a decrease of \$25.0 million from the comparable 2001 period. Gross profit as a percentage of net sales decreased to 42.1% from 46.8% for the three months ended March 31, 2001, primarily as a result of the significant decline in sales volume for both process equipment and metrology.

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Research and development expenses of \$13.3 million for the three months ended March 31, 2002, decreased by \$1.8 million, or 12%, over the comparable period of 2001. The decrease principally relates the overall decline in business and the cost reduction efforts taken by the Company during the fourth quarter of 2001, which included a 15% workforce reduction, plant consolidations, selective work-week reductions and reduced management salaries.

Selling, general and administrative expenses of \$19.0 million for the three months ended March 31, 2002, decreased by approximately \$2.1 million, or 10%, over the comparable 2001 period. The decrease is due to decreased selling and commission expense related to the lower sales volume and the cost cutting measures mentioned above. The decrease in selling, general and administrative expenses is offset, in part, by \$2.4 million of expenses from the acquisitions of Applied Epi and ThermoMicroscopes ("TM"), which had no comparable spending in 2001.

Amortization expense totaled \$3.7 million in the first quarter of 2002 versus \$1.4 million in 2001. The increase is due primarily to the intangible assets acquired in connection with the acquisitions of Applied Epi and TM, offset in part by \$0.4 million of reduced amortization expense related to the accounting requirement to no longer amortize goodwill, effective January 1, 2002, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is to be reviewed annually for impairment. As of January 1, 2002, no impairment exists.

Other expense decreased \$1.4 million due to a significant reduction in foreign currency exchange losses, compared to the first quarter of 2001.

During the three months ended March 31, 2002, the Company incurred a restructuring charge of \$0.8 million related to the reduction in work force announced in the fourth quarter of 2001. This charge includes severance related costs for approximately 60 employees which included both management and manufacturing employees located at the Company's Minnesota, Plainview and Rochester operations. As of March 31, 2002, approximately \$0.3 million has been expended and approximately \$0.5 million remains accrued. 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. These charges consisted of a \$13.6 million write-off of inventory related to order cancellations and the rationalization of certain product lines, \$3.0 million related to personnel and business relocation costs and \$3.4 million related to the write-down of long-lived assets. The \$3.0 million charge for personnel and business relocation costs principally related to plant consolidations and a workforce reduction of approximately 230 employees, which included both management and manufacturing employees located in all operations of the Company. As of March 31, 2002, approximately \$1.7 million of the \$3.0 million charge for relocation and termination benefits has been paid and approximately \$1.3 million remains accrued.

Interest expense, net of \$1.5 million for the three months ended March 31, 2002 increased \$2.3 million from the comparable 2001 period as a direct result of the issuance of \$220.0 million of 4.125% convertible subordinated notes, which occurred in December 2001 and January 2002.

Income taxes for the three months ended March 31, 2002 amounted to a benefit of \$1.6 million, or 34%, of loss before income taxes, as compared to \$7.2 million, or 35%, of income before income taxes, for the same period of 2001.

Quarterly information for the three months ended March 31, 2001, has been restated from that previously filed on the Quarterly Report on Form 10-Q for such period, due to the required accounting for the discontinued operations of the Company's industrial measurement segment.

### **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 derivatives, bad debts, inventories, intangible 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 intangible assets and derivatives 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. For products produced according to the Company's published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer's specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount of any customer retention (generally 10% to 20%), which is not payable by the customer until installation is completed and final customer acceptance is achieved. Installation is not deemed to be essential to the functionality of the equipment since installation does not involve significant changes to the features or capabilities of the equipment or building complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% to 2% of the sales value of the related equipment. For new applications of the Company's existing 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. 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-progress, 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 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 intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. Changes in strategy and/or market conditions could significantly impact these assumptions, and thus Veeco may be required, during the annual review process, to record an impairment charge for these assets in accordance with SFAS No. 142.

*Derivatives:* During the three months ended March 31, 2002, the Company used derivative financial instruments to minimize the impact of foreign exchange rate changes on earnings and cash flows. In the normal course of business, operations are exposed to fluctuations in foreign exchange rates. In order to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated

intercompany transactions and other known foreign currency exposures, the Company enters into monthly forward contracts (which during the three months ended March 31, 2002, included a majority of the Company's foreign subsidiaries). The Company does not use derivative financial instruments for trading or speculative purposes. The Company's forward contracts do not subject it to material risks due to exchange rate movements because gains and losses on these contracts are intended to offset exchange gains and losses on the underlying assets and liabilities; both the forward contracts and the underlying assets and liabilities are marked-to-market through earnings.

## Liquidity and Capital Resources

Cash flows from operations were \$1.8 million for the three months ended March 31, 2002, as compared to \$2.0 million for the comparable 2001 period. Net income adjusted for non-cash items provided operating cash flows of \$2.1 million for the three months ended March 31, 2002 compared to \$24.7 million for the comparable 2001 period. The amount of net income adjusted for non-cash items for the three months ended March 31, 2002 was offset by a decrease in working capital of \$0.3 million. Accounts receivable for the three months ended March 31, 2002 decreased by \$18.1 million, primarily as a result of the decrease in sales volume from the fourth quarter of 2001. Deferred gross profit for the three months ended March 31, 2002 decreased by \$5.3 million as a result of revenue recognition on tools that received final customer acceptance. Taxes payable decreased by \$8.1 million, as a result of income tax payments made by the Company's Japanese subsidiary and various other tax payments made in the first quarter of 2002 related to sales and foreign taxes. In addition, accrued expenses decreased as a result of bonuses paid in the first quarter of 2002 and the decrease in accrued commission expense related to the decline in sales volume.

In December 2001, the Company issued \$200.0 million of 4.125% convertible subordinated notes, and in January 2002, the Company issued an additional \$20.0 million of notes pursuant to an over allotment option.

In connection with the subordinated notes issuance in December 2001 and January 2002, the Company purchased approximately \$25.9 million of U.S. government securities, which have been pledged to the trustee under the indenture as security for the exclusive benefit of the holders of the notes. These securities will be sufficient to provide for the payment in full of the first six scheduled interest payments due on the notes and represent restricted investments.

Funds from operations and the use of proceeds received from the issuance of the subordinated note over allotment option in January 2002 were used to pay for capital expenditures and the scheduled repayment of long-term debt.

At March 31, 2002, 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	\$ 238,614	\$ 3,458	\$ 3,022	\$ 1,261	\$ 230,873
Operating leases	17,060	2,456	4,558	3,205	6,841
Letters of credit	3,971	3,971	—	—	—
	<u>\$ 259,645</u>	<u>\$ 9,885</u>	<u>\$ 7,580</u>	<u>\$ 4,466</u>	<u>\$ 237,714</u>

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 will be sufficient to meet the Company's projected working capital and other cash flow requirements for the next twelve months.

## Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Veeco's net sales to foreign customers represented approximately 45% of Veeco's total net sales for the three months ended March 31, 2002 and 41% for the comparable 2001 period. 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 19% of Veeco's total net sales for the three months ended March 31, 2002, and 15% for the comparable 2001 period. The aggregate foreign currency exchange loss included in determining consolidated results of operations was immaterial during the three months ended March 31, 2002, and was \$1.5 million, net of \$0.9 million of realized gains on forward exchange contracts, for the three months ended March 31, 2001. The change in currency exchange rates that have the largest impact on translating Veeco's international operating profit are the Japanese Yen and the Euro. The Company estimates that based upon the March 31, 2002 balance sheet, a 10% change in foreign currency exchange rates would impact reported operating profit by approximately \$1.4 million. The Company believes that this quantitative measure has inherent limitations because it does not take into account any governmental actions or changes in either customer purchasing patterns or financing and operating strategies. Veeco is exposed to financial market risks, including changes in foreign currency exchange rates. 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 transactions and other known currency exposures. The average notional amount of such contracts was approximately \$1.2 million for the three months ended March 31, 2002. As of March 31, 2002, there were no open forward contracts.

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## PART II. OTHER INFORMATION

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

(a) Exhibits

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

Number	Exhibit	Incorporated by Reference to the Following Documents
10.1	Third Amendment dated as of February 7, 2002 to the Credit Agreement, dated April 19, 2001 among Veeco Instruments Inc., Fleet National Bank, as administrative agent, The Chase Manhattan Bank, as syndication agent, HSBC Bank USA, as documentation agent and the lenders named therein.	Annual Report on Form 10-K for the Year Ended December 31, 2001 Exhibit 10.4
10.2	Fourth Amendment dated as of March 20, 2002 to the Credit Agreement, dated April 19, 2001 among Veeco Instruments Inc., Fleet National Bank, as administrative agent, The Chase Manhattan Bank, as syndication agent, HSBC Bank USA, as documentation agent and the lenders named therein.	Annual Report on Form 10-K for the Year Ended December 31, 2001 Exhibit 10.5
10.3	Security Agreement dated as of March 20, 2002 among Veeco Instruments Inc., the subsidiaries of Veeco named therein and Fleet National Bank, as administrative agent.	*

\* Filed herewith

(b) Reports on Form 8-K.

None.

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## 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: May 9, 2002

Veeco Instruments Inc.

By: /s/ EDWARD H. BRAUN

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Edward H. Braun  
*Chairman, Chief Executive Officer and President*

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

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**Exhibit 10.3**

**SECURITY AGREEMENT**

**SECURITY AGREEMENT**, dated as of March 20, 2002, by and among each of the entities identified on the signature page hereto under the heading "Grantor" (each a "Grantor" and, collectively, the "Grantors") and **FLEET NATIONAL BANK**, as Administrative Agent for the ratable benefit of the Lenders from time to time party to the Credit Agreement referred to below (in such capacity, the "Secured Party").

**RECITALS**

**A.** Veeco Instruments Inc., a Delaware corporation (the "Company"), Fleet National Bank, as Administrative Agent, JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Syndication Agent, HSBC Bank USA, as Documentation Agent and the Lenders party thereto have entered into a Credit Agreement, dated as of April 19, 2001 (as the same has been or may be hereafter amended, modified, restated or supplemented from time to time, the "Credit Agreement") pursuant to which the Company has received and will continue to receive loans and other financial accommodations from the Lenders and will incur Obligations (as hereinafter defined).

**B.** To induce the Credit Parties to continue to extend credit to the Company on and after the date hereof as provided in the Credit Agreement, each Grantor desires to grant the Credit Parties security and assurance in order to secure the payment and performance of all Obligations and to that effect to grant the Secured Party for the ratable benefit of the Credit Parties a first priority perfected security interest in certain of its assets and, in connection therewith, to execute and deliver this Agreement.

Accordingly, the parties hereto hereby agree as follows:

**DEFINITIONS**

(a) Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Uniform Commercial Code as in effect in the State of New York (the "UCC").

(b) Capitalized terms used herein and not otherwise defined herein shall have the following meanings:

" *Agreement* " shall mean this Agreement and shall include all amendments, modifications and supplements hereto and shall refer to this Agreement as the same may be in effect at the time such reference becomes operative.

" *Business Day* " shall have the meaning assigned to such term in the Credit Agreement.

" *Collateral* " shall mean the following personal property of each Grantor, wherever located, and whether now owned or hereafter acquired or arising:

- (i) Accounts;
- (ii) General Intangibles (to the extent arising from Accounts); and
- (iii) to the extent not listed above as original collateral, proceeds and products of the foregoing.

" *Credit Party* " means, collectively, the Administrative Agent, the Issuing Lender and each of the Lenders.

" *Default* " shall have the meaning assigned to such term in the Credit Agreement.

" *Event of Default* " shall have the meaning assigned to such term in the Credit Agreement.

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" *Lenders* " shall have the meaning assigned to such term in the Credit Agreement.

" *Liens* " shall have the meaning assigned to such term in the Credit Agreement.

" *Loan Documents* " shall have the meaning assigned to such term in the Credit Agreement.

" *Loans* " shall have the meaning assigned to such term in the Credit Agreement.

" *Obligations* " shall have the meaning assigned to such term in the Credit Agreement.

" *Person* " shall have the meaning assigned to such term in the Credit Agreement.

(c) **Terms Generally.** The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, pronouns stated in the masculine, the feminine or neuter gender shall include the masculine, feminine and the neuter. Except as otherwise herein specifically provided, each accounting term used herein shall have the meaning given to it under Generally Accepted Accounting Principles. The term "including" shall not be limited or exclusive, unless specifically indicated to the contrary. The word "will" shall be construed to have the same meaning as the word "shall". The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole, including the exhibits and schedules hereto, all of which are by this reference incorporated into this Agreement.

## I. SECURITY

**SECTION 1.01. *Grant of Security.*** As security for the Obligations, each Grantor hereby transfers and assigns to the Secured Party for the ratable benefit of the Credit Parties, and grants to the Secured Party for the ratable benefit of the Credit Parties a security interest in, the Collateral.

**SECTION 1.02. *Release and Satisfaction.*** Upon the termination of this Agreement and the indefeasible payment in full of the Obligations (other than those which by their terms survive the termination of this Agreement), the Secured Party shall deliver to each Grantor, upon request therefor and at such Grantor's expense, releases and satisfactions of all financing statements, notices of assignment and other registrations of security.

## II. REPRESENTATIONS AND WARRANTIES

**SECTION 2.01. *Representations and Warranties With Respect to Security.*** Each Grantor hereby represents and warrants to the Secured Party for the ratable benefit of the Credit Parties as follows:

- (a) ***Name.*** Each Grantor's exact legal name, state of incorporation or organization and organizational number are set forth on

Schedule A annexed hereto.

(b) **Ownership of Collateral.** Each Grantor owns all of the Collateral, free and clear of all Liens, other than the Liens permitted under Section 7.02 of the Credit Agreement.

(c) **Accounts.** Annexed hereto as Schedule A is a list identifying the chief executive office or principal place of business of each Grantor and all addresses at which each Grantor maintains books or records relating to its Accounts as of the date of this Agreement.

(d) **Trade Names.** Except as set forth on Schedule A annexed hereto, each Grantor has not done during the five years prior to this Agreement, and does not currently do, business under fictitious business names or trade names. No Grantor has been known under any other name during such five year period.

(e) **Acquired Collateral.** Except as set forth on Schedule A annexed hereto, the Collateral has been acquired or originated by each Grantor in the ordinary course of such Grantor's business and was not acquired pursuant to any acquisition of all or a portion of the business of any Person whether by merger, acquisition of assets or otherwise.

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(f) **Third Party Locations.** Except as set forth on Schedule A annexed hereto, no Collateral is in the possession of, or under the control of, any Person other than a Grantor or the Secured Party.

(g) **Enforceability of Security Interests.** Upon the execution of this Agreement by each Grantor and the filing of financing statements properly describing the Collateral and identifying such Grantor and the Secured Party in the applicable jurisdiction required pursuant to the UCC, security interests and liens granted to the Secured Party under Section 1.01 hereof shall constitute valid, perfected and first priority security interests and liens in and to the Collateral of such Grantor, other than Collateral which may not be perfected by filing under the UCC, and subject to the Liens permitted pursuant to Section 7.02 of the Credit Agreement, in each case securing the payment of the Obligations and enforceable against all third parties, except to the extent that enforcement may be limited by applicable bankruptcy, reorganization, moratorium, insolvency and similar laws affecting creditors' rights generally or by equitable principles of general application, regardless of whether considered in a proceeding in equity or at law.

### III. COVENANTS OF GRANTORS

**SECTION 3.01. Records; Location of Collateral.** During the term of this Agreement, (a) no Grantor shall change the jurisdiction of its incorporation or organization or move its chief executive office, principal place of business or office at which is kept its books and records (including computer printouts and programs) from the locations existing on the date hereof and listed on Schedule A annexed hereto; and (b) no Grantor shall change its corporate name in any respect, unless, in each case of clauses (a) and (b) above, (i) such Grantor shall have given the Secured Party thirty (30) Business Days' prior written notice of its intention to do so, identifying the new location and providing such other information as the Secured Party deems necessary, and (ii) such Grantor shall have delivered to the Secured Party such documentation, in form and substance satisfactory to the Secured Party and as required by the Secured Party, to preserve the Secured Party's security interest hereunder in the Collateral.

**SECTION 3.02. Further Actions.** Each Grantor agrees, upon the request of the Secured Party and at the Secured Party's option, to take any and all other actions as the Secured Party may determine to be necessary or useful for the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest hereunder in any and all of the Collateral, including without limitation, executing and delivering and where appropriate, filing financing statements and amendments relating thereto under the UCC to the extent, if any, that such Grantor's signature thereon is required therefor, causing the Secured Party's name to be noted as Secured Party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or the ability of the Secured Party to enforce, the Secured Party's security interest hereunder in such Collateral, (c) comply with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce the Secured Party's security interest hereunder in such Collateral, (d) obtaining governmental and other third party waivers, consents and approvals in form and substance satisfactory to the Secured Party, including, without limitation, any consent of any licensor, lessor or other persons obligated on Collateral and (e) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Secured Party. Each Grantor further authorizes the Secured Party to file initial financing statements describing the Collateral, and any amendments thereto and continuations thereof.

**SECTION 3.03. Inspection.** Upon reasonable notice to a Grantor, the Secured Party may, during such Grantor's normal business hours, examine and inspect any Collateral and may examine, inspect and copy all books and records with respect thereto or relevant to the Obligations.



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**SECTION 3.04. Indemnification.** Each Grantor agrees to indemnify the Secured Party and each Credit Party and hold it harmless from and against any and all injuries, claims, damages, judgments, liabilities, costs and expenses (including, without limitation, reasonable fees and disbursements of counsel), charges and encumbrances which may be incurred by or asserted against the Secured Party or any Credit Party in connection with or arising out of any assertion, declaration or defense of the Secured Party's or any Credit Party's rights or security interest under the provisions of this Agreement or any other Loan Document, permitting it to collect, settle or adjust Accounts or to deal with account debtors in any way or in connection with the realization, repossession, safeguarding, insuring or other protection of the Collateral or in connection with the collecting, perfecting or protecting the Secured Party's liens and security interests hereunder or under any other Loan Document, except to the extent caused by the gross negligence or wilful misconduct of the Secured Party, any Credit Party, or any of their respective representatives.

#### **IV. POWER OF ATTORNEY; NOTICES**

**SECTION 4.01. Power of Attorney.** Each Grantor hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the place and stead of such Grantor or in the Secured Party's own name, for the purpose of carrying out the terms of this Agreement, upon the occurrence and during the continuance of an Event of Default, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or useful to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives said attorneys the power and right, on behalf of the Grantor, without notice to or assent by such Grantor, to (a) endorse the name of such Grantor on any checks, notes, drafts or other forms of payment or security that may come into the possession of the Secured Party or any affiliate of the Secured Party, to sign such Grantor's name on invoices or bills-of-lading, drafts against customers, notices of assignment, verifications and schedules, (b) sell, transfer, pledge, make any arrangement with respect to or otherwise dispose of or deal with any of the Collateral consistent with the UCC and (c) do acts and things which the Secured Party deems necessary or useful to protect, preserve or realize upon the Collateral and the Secured Party's security interest therein. The powers granted herein, being coupled with an interest, are irrevocable until all of the Obligations are indefeasibly paid in full and this Agreement is terminated. The powers conferred on the Secured Party hereunder are solely to protect its and the Credit Parties' interests in the Collateral and shall not impose any duty upon it to exercise any such powers. Neither the Secured Party nor any attorney-in-fact shall be liable for any act or omission, error in judgment or mistake of law provided the same is not the result of gross negligence or willful misconduct.

**SECTION 4.02. Notices.** Upon the occurrence of an Event of Default, the Secured Party may notify account debtors and other persons obligated on any of the Collateral that the Collateral has been assigned to the Secured Party or of its security interest therein and to direct such account debtors and other persons obligated on any of the Collateral to make payment of all amounts due or to become due a Grantor directly to the Secured Party and upon such notification and at such Grantor's expense to enforce collection of any such Collateral, and to adjust, compromise or settle for cash, credit or otherwise upon any terms the amount of payment thereof. The Secured Party may, at any time following the occurrence of an Event of Default, notify the Postal Service authorities to change the address of delivery of mail to an address designated by the Secured Party. After the making of such a request or the giving of any such notification, each Grantor shall hold any proceeds of collection of accounts, Chattel Paper, general intangibles, instruments and other Collateral received by it as trustee for the Credit Parties and the Secured Party without commingling the same with any other property or asset of such Grantor and shall turn the same over to the Secured Party in the identical form received, together with any necessary endorsements or assignments. The Secured Party shall apply the proceeds of collection of such Collateral received by the Secured Party to the Obligations, in such order as the Secured Party, in its sole discretion, shall determine, such proceeds to be immediately credited after final payment in cash or other immediately available funds of the items giving rise to them.

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#### **V. REMEDIES OF SECURED PARTY**

**SECTION 5.01. Enforcement.** Upon the occurrence of an Event of Default, the Secured Party shall have, in addition to all of its and the Credit Parties' other rights under this Agreement and the other Loan Documents by operation of law or otherwise (which rights shall be cumulative), all of the rights and remedies of a secured party under the UCC and shall have the right, to the extent permitted by law, without charge, to enter any Grantor's premises, and until it completes the enforcement of its rights in the Collateral subject to its security interest hereunder and the sale or other disposition of any property subject thereto, take possession of such premises without charge, rent or payment therefor (through self help without judicial process and without having first given notice or obtained an order of any court), or place custodians in control thereof, remain on such premises and use the same for the purpose of completing any work in progress, preparing any Collateral for disposition, and disposing of or collecting any Collateral. Without limiting the foregoing, upon the occurrence of an Event of Default, the Secured Party may, without demand, advertising or notice, all of which each Grantor hereby waives (except as the same may be required by law), sell, lease, license or otherwise dispose of and grant options to a third party to purchase, lease, license or otherwise dispose of any and all Collateral held by it or for its account at any time or times in one or more public or private sales or other dispositions, for cash, on credit or otherwise, at such prices and upon such terms as the Secured Party, in its sole discretion, deems advisable. At any such sale the Collateral or any portion thereof may be sold in one lot as an entirety or in separate parcels as the Secured Party in its sole discretion deems advisable. Each

Grantor agrees that if notice of sale shall be required by law such requirement shall be met if such notice is mailed, postage prepaid, to such Grantor at its address determined pursuant to Section 6.04 hereof or such other address as it may have, in writing, provided to the Secured Party, at least ten (10) days before the time of such sale or disposition. The Secured Party may postpone or adjourn any sale of any Collateral from time to time by an announcement at the time and place of the sale to be so postponed or adjourned, without being required to give a new notice of sale. Notice of any public sale shall be sufficient if it describes the Collateral to be sold in general terms, stating the amounts thereof, the nature of the business in which such Collateral was created and the location and nature of the properties covered by the other security interests or mortgages and the prior liens thereof. The Secured Party or any Credit Party may be the purchaser at any such sale if it is public, free from any right of redemption, which such Grantor also waives. Each Grantor with respect to its property constituting such Collateral, shall be obligated for, and the proceeds of sale shall be applied first to, the costs of taking, assembling, finishing, collecting, refurbishing, storing, guarding, insuring, preparing for sale, and selling the Collateral, including the fees and disbursements of attorneys, auctioneers, appraisers and accountants employed by the Secured Party. Proceeds shall then be applied to the payment, in whatever order the Secured Party may elect, of all of the Obligations. The Secured Party shall return any excess to such Grantor or to whomever may be fully entitled to receive the same or as a court of competent jurisdiction may direct. In the event that the proceeds of any sale or other disposition of the Collateral are insufficient to pay in full the Obligations, each Grantor shall remain liable for any deficiency.

**SECTION 5.02. *Standards for Exercising Rights and Remedies.*** To the extent that applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it is not commercially unreasonable for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to fail to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against account debtors or other persons obligated on Collateral or to fail to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise or fail to exercise collection remedies against account debtors and other persons obligated on Collateral directly

or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other persons, whether or not in the same business as any Grantor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party and the Credit Parties against risk of loss, collection or disposition of Collateral or to provide to the Secured Party and the Credit Parties a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. Each Grantor acknowledges that the purpose of this Section 5.02 is to provide non-exhaustive indications of what actions or omissions by the Secured Party would fulfill the Secured Party's duties under the UCC or under applicable law of any other relevant jurisdiction in the Secured Party's exercise of remedies against the Collateral and that other actions or omissions by the Secured Party shall not be deemed to fail to fulfill such duties solely on account of not being indicated in this Section 5.02. Without limitation upon the foregoing, nothing contained in this Section 5.02 shall be construed to grant any rights to any Grantor or to impose any duties on the Secured Party or any Credit Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 5.02.

**SECTION 5.03. *Waiver.*** Each Grantor waives any right, to the extent applicable law permits, to receive prior notice of, or a judicial or other hearing with respect to, any action or prejudgment remedy or proceeding by the Secured Party to take possession, exercise control over, or dispose of any item of the Collateral in any instance (regardless of where such Collateral may be located) where such action is permitted under the terms of this Agreement or any other Loan Document, or by applicable law, or of the time, place or terms of sale in connection with the exercise of the Secured Party's rights hereunder and such Grantor also waives, to the extent permitted by law, any bond, security or sureties required by any statute, rule or otherwise by law as an incident to any taking of possession by the Secured Party of property subject to the Secured Party's Lien hereunder. Each Grantor further waives any damages (direct, consequential or otherwise) occasioned by the enforcement of the Secured Party's rights under this Agreement and any other Loan Document including the taking of possession of any Collateral all to the extent that such waiver is permitted by law and to the extent that such damages are not caused by the Secured Party's gross negligence or willful misconduct. These waivers and all other waivers provided for in this Agreement and any other Loan Documents have been negotiated by the parties and each Grantor acknowledges that it has been represented by counsel of its own choice and has consulted such counsel with respect to its rights hereunder.

**SECTION 5.04. *Other Rights.*** Each Grantor agrees that the Secured Party shall not have any obligation to preserve rights to any Collateral against prior parties or to proceed first against any Collateral or to marshal any Collateral of any kind for the benefit of any other creditors of such Grantor or any other Person.

**SECTION 5.05. *Expenses.*** Each Grantor agrees that it shall pay on demand therefor all costs and expenses incurred in amending, implementing, perfecting, collecting, defending, declaring and enforcing the Secured Party's rights and security interests in the Collateral hereunder or under the Credit Agreement or any other Loan Document or other instrument or agreement delivered in connection herewith or

therewith, including, but not limited to, searches and filings, and the Secured Party's reasonable attorneys' fees (regardless of whether any litigation is commenced, whether a default is declared hereunder, and regardless of tribunal or jurisdiction).

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## VI. GENERAL PROVISIONS

**SECTION 6.01. *Termination.*** This Agreement shall remain in full force and effect until all the Obligations shall have been indefeasibly and fully paid and satisfied (other than those which by their terms survive termination of this Agreement) and the Credit Agreement shall have expired or been terminated and, until such time, the Secured Party shall retain all security in and title to all existing and future Collateral held by it hereunder.

**SECTION 6.02. *Remedies Cumulative.*** The Secured Party's rights and remedies under this Agreement shall be cumulative and non-exclusive of any other rights or remedies which it may have under the Credit Agreement, any other Loan Document or any other agreement or instrument, by operation of law or otherwise and may be exercised alternatively, successively or concurrently as the Secured Party may deem expedient.

**SECTION 6.03. *Binding Effect.*** This Agreement is entered into for, and shall inure to, the benefit of the parties hereto and the Credit Parties and their successors and assigns. It shall be binding upon the said parties, their successors and assigns. No Grantor shall assign or transfer any of its rights or obligations hereunder without the prior written consent of the Credit Parties and any attempted such assignment or transfer without such consent shall be null and void.

**SECTION 6.04. *Notices.*** Wherever this Agreement provides for notice to any party (except as expressly provided to the contrary), it shall be in writing and given in the manner specified in Section 10.01 of the Credit Agreement. Such notices to each Grantor shall be delivered to the address for notices set forth on Schedule A annexed hereto.

**SECTION 6.05. *Waiver.*** No delay or failure on the part of the Secured Party in exercising any right, privilege, remedy or option hereunder shall operate as a waiver of such or any other right, privilege, remedy or option, and no waiver shall be valid unless in writing and signed by an officer of the Secured Party (acting with the requisite consent of the Lenders as provided in the Credit Agreement) and only to the extent therein set forth.

**SECTION 6.06. *Modifications and Amendments.*** This Agreement and the other agreements to which it refers constitute the complete agreement between the parties with respect to the subject matter hereof and may not be changed, modified, waived, amended or terminated orally, but only by a writing signed by the party to be charged.

**SECTION 6.07. *Several Agreements.*** This Agreement shall constitute the joint and several obligations and agreements of each Grantor, and may be amended, restated, supplemented or otherwise modified from time to time, with respect to any Grantor without the consent or approval of any other Grantor, and no such amendment, restatement, supplement or modification shall be deemed to amend, restate, supplement or modify the obligations of any other Grantor hereunder.

**SECTION 6.08. *Survival of Representations and Warranties.*** The representations and warranties of each Grantor made or deemed made herein shall survive the execution and delivery of this Agreement.

**SECTION 6.09. *Severability.*** Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, in such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

**SECTION 6.10. *Applicable Law; Consent to Jurisdiction; Waiver of Jury Trial.*** **THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICT OR CHOICE OF LAWS. EACH GRANTOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY FEDERAL OR STATE COURT IN THE STATE OF NEW YORK, COUNTY**

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**OF NEW YORK, COUNTY OF NASSAU OR COUNTY OF SUFFOLK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GRANTOR HEREBY**

WAIVES AND AGREES NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURTS, THAT ANY SUCH SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF OR THEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURTS. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GRANTOR AGREES (i) NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT AND (ii) NOT TO ASSERT ANY COUNTERCLAIM IN ANY SUCH SUIT, ACTION OR PROCEEDING. EACH GRANTOR AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK. EACH GRANTOR AND THE SECURED PARTY EACH IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

**SECTION 6.11. Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which taken together shall constitute one and the same agreement.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed by their officers thereunto duly authorized as of the day and year first above written.

**SECURED PARTY:**

**FLEET NATIONAL BANK,**  
as Administrative Agent

By: /s/ AUTHORIZED SIGNATORY

**GRANTORS:**

**VEECO INSTRUMENTS INC.**

By: /s/ AUTHORIZED SIGNATORY

**VEECO METROLOGY, LLC**

By: VEECO INSTRUMENTS INC.,  
its sole member

By: /s/ AUTHORIZED SIGNATORY

**TULAKES REAL ESTATE  
INVESTMENTS, INC.**

By: /s/ AUTHORIZED SIGNATORY

**CVC, INC.**

By: /s/ AUTHORIZED SIGNATORY

**ROBIN HILL PROPERTIES, INC.**

By: /s/ AUTHORIZED SIGNATORY

**WYKO CORPORATION**

By: /s/ AUTHORIZED SIGNATORY

**ION TECH, INC.**

By: /s/ AUTHORIZED SIGNATORY

**VEECO MINNEAPOLIS  
TECHNOLOGY CENTER, INC.**

By: /s/ AUTHORIZED SIGNATORY

**CVC PRODUCTS, INC.**

By: /s/ AUTHORIZED SIGNATORY

**APPLIED EPI, INC.**

By: /s/ AUTHORIZED SIGNATORY

QuickLinks

Exhibit 10.3

II. REPRESENTATIONS AND WARRANTIES

III. COVENANTS OF GRANTORS

IV. POWER OF ATTORNEY; NOTICES

V. REMEDIES OF SECURED PARTY

VI. GENERAL PROVISIONS

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**End of Filing**

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