VEECO INSTRUMENTS INC
Form 10-Q/A
April 01, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from to .

Commission file number: 0-16244

VEECO INSTRUMENTS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**11-2989601**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
	11797

100 Sunnyside Boulevard, Suite B
Woodbury, New York
(Address of Principal Executive Offices) (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 ý No o

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

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

SAFE HARBOR STATEMENT

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

The cyclicality of the microelectronics industries we serve directly affects our business.

We operate in a highly competitive industry characterized by rapid technological change.

We depend on a limited number of customers that operate in highly concentrated industries.

Our quarterly operating results fluctuate significantly.

Our acquisition strategy subjects us to risks associated with evaluating and pursuing these opportunities and integrating these businesses.

Our inability to attract, retain and motivate key employees could have a material adverse effect on our business.

We are exposed to the risks of operating a global business.

Our success depends on protection of our intellectual property rights. We may be subject to claims of intellectual property infringement by others.

We rely on a limited number of suppliers.

We may not obtain sufficient affordable funds to finance our future needs.

We are subject to risks of non-compliance with environmental and safety regulations.

We have adopted certain measures that may have anti-takeover effects, which may make an acquisition of our company by another company more difficult.

The other matters discussed under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

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

Available Information

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

Internet Address

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

EXPLANATORY NOTE

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 was initially filed with the Securities and Exchange Commission (SEC) on August 3, 2004 (the Originally Filed 10-Q). This Amendment No. 1 is being filed to reflect restatements of the following (unaudited) financial statements: condensed consolidated statements of operations and cash flows for the three and six month periods ended June 30, 2004; condensed consolidated balance sheets as at June 30, 2004; and to make certain conforming changes. On March 16, 2005, we announced that we would restate our consolidated financial statements for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 to reflect adjustments determined to be necessary as a result of an internal investigation of improper accounting transactions at our TurboDisc® business unit. For a description of the restatements, see Restatements in Note 2 to the accompanying (unaudited) condensed consolidated financial statements and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Events *Internal Accounting Investigation; Restatement of 2004 Financial Results* in this Amendment No. 1.

This Amendment No. 1 amends and restates Items 1, 2, 3 and 4 of Part I and Items 4 and 6 of Part II of the Originally Filed 10-Q and, except for such items and Exhibits 31.1, 31.2, 32.1 and 32.2, no other information in the Originally Filed 10-Q is amended hereby. The explanatory caption at the beginning of each item of this Amendment No. 1 sets forth the nature of the revisions to that item.

For a discussion of events and developments subsequent to June 30, 2004, see:

our amended Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2004 which contains (unaudited) restated condensed consolidated statements of operations for the three and nine month periods ended September 30, 2004, (unaudited) restated condensed consolidated statements of cash flows for the nine month period ended September 30, 2004 and (unaudited) restated condensed consolidated balance sheet as at September 30, 2004;

our Annual Report on Form 10-K for the year ended December 31, 2004; and

our other filings subsequent to June 30, 2004.

VEECO INSTRUMENTS INC.

INDEX

Part I.	**Financial Information**
Item 1.	Financial Statements (Unaudited):
	Condensed Consolidated Statements of Operations Three Months Ended June 30, 2004 (Restated) and 2003
	Condensed Consolidated Statements of Operations Six Months Ended June 30, 2004 (Restated) and 2003
	Condensed Consolidated Balance Sheets June 30, 2004 (Restated) and December 31, 2003
	Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2004 (Restated) and 2003
	Notes to Condensed Consolidated Financial Statements
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated)
Item 3.	Quantitative and Qualitative Disclosure About Market Risk
Item 4.	Controls and Procedures
Part II.	**Other Information**
Item 4.	Submission of Matters to a Vote of Security Holders
Item 6.	Exhibits
SIGNATURES	

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

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

	Three Months Ended June 30,	
	2004 (Restated)	2003
Net sales	$ 99,246	$ 73,449
Cost of sales	58,331	40,655
Gross profit	40,915	32,794
Costs and expenses:		
Selling, general and administrative expense	21,686	17,899
Research and development expense	14,589	11,708
Amortization expense	4,575	3,159
Other income, net	(355)	(22)
Restructuring expense		789
Operating income (loss)	420	(739)
Interest expense, net	2,239	1,886
Loss before income taxes	(1,819)	(2,625)
Income tax benefit	(162)	(1,490)
Net loss	$ (1,657)	$ (1,135)
Net loss per common share	$ (0.06)	$ (0.04)
Diluted net loss per common share	$ (0.06)	$ (0.04)
Weighted average shares outstanding	29,649	29,247
Diluted weighted average shares outstanding	29,649	29,247

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, 2004 (Restated)	Six Months Ended June 30, 2003
Net sales	$ 190,109	$ 139,228
Cost of sales	112,396	75,228
Gross profit	77,713	64,000
Costs and expenses:		
Selling, general and administrative expense	41,576	34,814
Research and development expense	28,616	23,866
Amortization expense	9,471	6,301
Other income, net	(641)	(895)
Restructuring expense		1,457
Operating loss	(1,309)	(1,543)
Interest expense, net	4,438	3,653
Loss before income taxes	(5,747)	(5,196)
Income tax benefit	(1,380)	(2,364)
Net loss	$ (4,367)	$ (2,832)
Net loss per common share	$ (0.15)	$ (0.10)
Diluted net loss per common share	$ (0.15)	$ (0.10)
Weighted average shares outstanding	29,608	29,236
Diluted weighted average shares outstanding	29,608	29,236

See Accompanying Notes.

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

	June 30, 2004 (Unaudited) (Restated)	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 117,415	$ 106,830
Accounts receivable, less allowance for doubtful accounts of $2,450 in 2004 and $2,458 in 2003	86,157	69,890
Inventories	108,088	97,622
Prepaid expenses and other current assets	9,913	15,823
Deferred income taxes	27,516	24,693
Total current assets	349,089	314,858
Property, plant and equipment at cost, less accumulated depreciation of $68,433 in 2004 and $62,504 in 2003	73,496	72,742
Goodwill	72,989	72,989
Purchased technology, less accumulated amortization of $32,383 in 2004 and $25,519 in 2003	78,985	85,849
Other intangible assets, less accumulated amortization of $17,453 in 2004 and $14,846 in 2003	16,689	18,842
Long-term investments	7,992	12,376
Deferred income taxes	19,948	18,136
Other assets, net	1,467	672
Total assets	$ 620,655	$ 596,464
Liabilities and shareholders equity		
Current Liabilities:		
Accounts payable	$ 28,491	$ 19,603
Accrued expenses	46,528	31,616
Deferred profit	4,641	2,140
Income taxes payable	3,582	3,700
Current portion of long-term debt	343	333
Total current liabilities	83,585	57,392
Long-term debt, net of current portion	229,760	229,935
Other non-current liabilities	2,872	2,808
Shareholders equity	304,438	306,329
Total liabilities and shareholders equity	$ 620,655	$ 596,464

See Accompanying Notes.

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

	Six Months Ended June 30, 2004 (Restated)	2003
Operating Activities		
Net loss	$ (4,367)	$ (2,832)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	15,917	11,420
Deferred income taxes	(4,665)	(4,656)
Other	(19)	(638)
Changes in operating assets and liabilities:		
Accounts receivable	(16,722)	350
Inventories	(11,209)	3,528
Accounts payable	8,915	5,946
Accrued expenses, deferred profit and other current liabilities	17,428	(12,405)
Other, net	1,207	1,017
Net cash provided by operating activities	6,485	1,730
Investing Activities		
Capital expenditures	(5,934)	(4,666)
Net assets of business acquired		(5,980)
Proceeds from sale of assets held for sale	2,615	1,132
Proceeds from sale of property, plant and equipment	26	
Net maturities of long-term investments	4,384	4,276
Net cash provided by (used in) investing activities	1,091	(5,238)
Financing Activities		
Proceeds from stock issuance	2,874	306
Repayment of long-term debt, net	(166)	(158)
Net cash provided by financing activities	2,708	148
Effect of exchange rates on cash and cash equivalents	301	(574)
Net change in cash and cash equivalents	10,585	(3,934)
Cash and cash equivalents at beginning of period	106,830	214,295
Cash and cash equivalents at end of period	$ 117,415	$ 210,361

See Accompanying Notes.

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

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

As described in Note 2, the (unaudited) condensed consolidated statements of operations and cash flows for the three and six month periods ended June 30, 2004 and the condensed consolidated balance sheet as of June 30, 2004, including the applicable notes, have been restated.

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 528,000 and 644,000 for the three and six months ended June 30, 2004, respectively, was dilutive, therefore, diluted earnings per share is presented for these periods. The effect of common equivalent shares of approximately 528,000 and 644,000 for the three and six months ended June 30, 2004, respectively, and the effect of common equivalent shares of approximately 233,000 and 198,000 for the three and six months ended June 30, 2003, respectively, were antidilutive, therefore diluted loss per share is not presented for these periods.

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (Restated)	2003	2004 (Restated)	2003
	(In thousands, except per share amounts)			
Net loss, as reported	$ (1,657)	$ (1,135)	$ (4,367)	$ (2,832)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,073)	(4,131)	(5,928)	(8,562)
Pro forma net loss	$ (4,730)	$ (5,266)	$ (10,295)	$ (11,394)
Loss per common share:				
Net loss per common share, as reported	$ (0.06)	$ (0.04)	$ (0.15)	$ (0.10)
Net loss per common share, pro forma	$ (0.16)	$ (0.18)	$ (0.35)	$ (0.39)
Diluted net loss per common share, as reported	$ (0.06)	$ (0.04)	$ (0.15)	$ (0.10)
Diluted net loss per common share, pro forma	$ (0.16)	$ (0.18)	$ (0.35)	$ (0.39)

Reclassifications

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

Note 2 Restatement

On February 11, 2005, Veeco announced the postponement of the release of audited results for the fourth quarter and year ended December 31, 2004, pending completion of an internal investigation of improper accounting transactions at its TurboDisc® business unit. Veeco acquired the assets of TurboDisc in November 2003. The investigation focused principally on the value of inventory, accounts payable and certain liabilities, as well as certain revenue transactions of TurboDisc. The investigation was commenced after Veeco s internal audit staff and corporate financial management discovered improper accounting transactions in the course of a Veeco internal audit and transitioning the business to Veeco s SAP accounting system during the fourth quarter of 2004. The Audit Committee of the Company s Board of Directors supervised the accounting investigation and authorized Veeco s outside counsel, Kaye Scholer LLP, to hire Jefferson Wells International to perform forensics and accounting reconstruction work as part of the investigation. The investigation has been completed. Conclusions reached during the investigation included that the improper accounting entries were made by a single individual at TurboDisc whose employment had been terminated prior to the commencement of the investigation, and that there was no evidence found of embezzlement or diversion of corporate assets.

On March 16, 2005, Veeco reported that it had completed its internal investigation and would be restating the financial statements previously issued for the three quarterly periods and nine months ended September 30, 2004. The pre-tax decrease to earnings previously reported is $2.8 million, $4.3 million and $3.1 million for the three month periods ended March 31, 2004, June 30, 2004 and September 30, 2004, respectively. In addition, as a result of revenue recognition adjustments, (decreases) increases to revenues previously reported will be $(3.6) million, $(3.6) million and $5.0 million for the three month periods ended March 31, 2004, June 30, 2004 and September 30, 2004, respectively. These revenue adjustments, in the aggregate, do not reduce total revenue recognized for 2004.

The table set forth below shows the adjustments to the quarterly information that was previously filed on the Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 2004:

	Three Months Ended June 30, 2004			Six Months Ended June 30, 2004		
	As filed	**Adjustments (1)**	**Restated**	**As filed**	**Adjustments (2)**	**Restated**
Net sales	$ 102,884	$ (3,638)	$ 99,246	$ 197,371	$ (7,262)	$ 190,109
Cost of sales	57,541	790	58,331	112,191	205	112,396
Gross profit	45,343	(4,428)	40,915	85,180	(7,467)	77,713
Costs and expenses	40,647	(152)	40,495	79,413	(391)	79,022
Operating income (loss)	4,696	(4,276)	420	5,767	(7,076)	(1,309)
Interest expense, net	2,239		2,239	4,438		4,438
Income (loss) before income taxes	2,457	(4,276)	(1,819)	1,329	(7,076)	(5,747)
Income tax provision (benefit)	876	(1,038)	(162)	452	(1,832)	(1,380)
Net income (loss)	1,581	(3,238)	$ (1,657)	877	(5,244)	$ (4,367)
Loss per common share:						
Net income (loss) per common share	$ 0.05	$ (0.11)	$ (0.06)	$ 0.03	$ (0.18)	$ (0.15)
Weighted average shares outstanding	29,649		29,649	29,670		29,608
Diluted weighted average shares outstanding	30,177		29,649	30,252		29,608

1. The $3.6 million net reduction in revenue principally results from revenue recognition adjustments for certain shipments. Approximately $7.3 million of revenue that was previously recognized in the second quarter of 2004 was reversed and properly recognized in the third quarter of 2004, which was partially offset by revenue of $3.6 million that was previously recognized in the first quarter that was reversed and properly recognized in the second quarter of 2004. The $0.8 million increase in cost of sales results from $3.2 million of adjustments in inventory, accounts payable, and accrued expenses, partially offset by a $2.4 million reduction related to the $3.6 million net reduction in revenues. The decrease in costs and expenses of $0.2 million principally relates to the over accrual of certain operating expenses. The $1.0 million adjustment to the income tax provision reflects the tax benefit resulting from the pre-tax adjustments.

2. The $7.3 million reduction in revenue principally results from revenue recognition adjustments for certain system shipments. The revenue for these systems was recognized in the third quarter. The $0.2 million increase in cost of sales results from the decrease in revenues due to the revenue recognition adjustments described above offset by adjustments principally to inventory, accounts payable and certain accrued expenses. The decrease in costs and expenses of $0.4 million principally relates to the over accrual of certain operating expenses. The $1.8 million adjustment to income tax benefit reflects the tax benefit resulting from the pre-tax adjustments.

The table set forth below shows the adjustments to the condensed consolidated balance sheet information as of June 30, 2004 that was previously filed on the Quarterly Report on Form 10-Q for the six month period ended June 30, 2004:

	As of June 30, 2004		
	As filed	Adjustments (1)	Restated
Assets			
Current assets	$ 359,128	$ (10,039)	$ 349,089
Non-current assets	267,689	3,877	271,566
Total assets	626,817	(6,162)	620,655
Liabilities and shareholders equity			
Current liabilities	84,503	(918)	83,585
Non-current liabilities	232,632		232,632
Shareholders equity	309,682	(5,244)	304,438
Total liabilities and shareholders equity	626,817	(6,162)	620,655

---

1. The $10.0 million reduction to current assets principally results from a $7.3 million decrease to accounts receivable resulting from revenue recognition adjustments, a net decrease of $2.5 million to the current portion of deferred taxes due to a $3.9 million shift of the deferred tax asset from short-term to long-term net of a $1.4 million increase in the asset due to the higher loss incurred, and a decrease to prepaid expenses and other current assets of $0.2 million due to adjusted taxes receivable. The $3.9 million increase in non-current assets results from an increase to the non-current portion of deferred taxes due to the shift in deferred tax assets noted above. The $0.9 million decrease in current liabilities is made up of a $0.7 million decrease to income taxes payable relating to an adjustment of state tax liabilities and a decrease of $0.2 million to accounts payable and accrued expenses principally relating to expenses deemed applicable to the first half. The $5.2 million decrease to shareholders equity relates to the increase in the net loss due to the various factors previously described.

Note 3 Balance Sheet Information

Inventories

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

	June 30, 2004 (Restated)	December 31, 2003
	(In thousands)	
Raw materials	$ 53,185	$ 49,734
Work-in-progress	34,867	31,887
Finished goods	20,036	16,001
	$ 108,088	$ 97,622

Accrued Warranty

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

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

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

Note 4 Segment Information

During the quarter ended September 30, 2004, the Company changed the structure of its internal organization in a manner which caused the composition of its reportable segments to change. The Company currently manages, reviews operating results and assesses performance, as well as allocates resources, based upon this reporting structure. The change implemented by the Company was to split out the former process equipment segment into two separate reportable segments. The first segment, called ion beam and mechanical process equipment, combines the etch, deposition and dicing and slicing products sold mostly to data storage customers. This segment includes the production facilities in Plainview, New York, Ft. Collins, Colorado and Camarillo and Ventura, California. The second segment, called epitaxial process equipment, includes the Molecular Beam Epitaxy and Metal Organic Chemical Vapor Deposition products primarily sold to high brightness light emitting diode and wireless telecommunications customers. This segment includes the production facilities in St. Paul, Minnesota and Somerset, New Jersey. The metrology segment, which includes the production facilities in Santa Barbara, California and Tucson, Arizona remains unchanged. As such, the Company has restated the segment information for prior periods as if the composition of its reportable segments described above had existed in such prior periods.

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

	Ion Beam and Mechanical Process Equipment	Epitaxial Process Equipment	Metrology	Unallocated Corporate Amount	Restructuring Charges	Total
Three Months Ended June 30, 2004 (Restated)						
Net sales	$ 37,905	$ 19,078	$ 42,263	$	$	$ 99,246
Income (loss) before interest, taxes and amortization	2,433	(1,772)	6,391	(2,057)		4,995
Three Months Ended June 30, 2003						
Net sales	25,639	8,641	39,169			73,449
Income (loss) before interest, taxes and amortization	1,094	561	4,122	(2,568)	(789)	2,420
Six Months Ended June 30, 2004 (Restated)						
Net sales	73,253	33,035	83,821			190,109
Income (loss) before interest, taxes and amortization	4,232	(4,585)	12,453	(3,938)		8,162
Total assets	184,850	133,704	133,139	168,962		620,655
Six Months Ended June 30, 2003						
Net sales	47,048	16,840	75,340			139,228
Income (loss) before interest, taxes and amortization	839	1,326	8,962	(4,912)	(1,457)	4,758
Total assets	$ 111,968	$ 62,112	$ 135,649	$ 289,333	$	$ 599,062

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

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

	June 30, 2004	December 31, 2003
Ion Beam and Mechanical Process Equipment	$ 21,676	$ 21,676
Epitaxial Process Equipment	25,944	25,944
Metrology	25,369	25,369
Total	$ 72,989	$ 72,989

Note 5 Comprehensive Loss

The Company s comprehensive loss is comprised of net loss, adjusted for foreign currency translation adjustments and minimum pension liability, and had no other sources affecting comprehensive loss. The Company had total comprehensive loss of $2.7 million and $4.8 million for the three and six months ended June 30, 2004, respectively, and $0.1 million and $2.1 million for the three and six months ended June 30, 2003, respectively.

Note 6 Restructuring

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

2003 Restructuring Charges

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

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

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Executive Summary:

Veeco designs, manufactures, markets and services a broad line of equipment primarily used by manufacturers in the data storage, semiconductor and compound semiconductor/wireless industries. Veeco s products also enable advancements in the growing field of nanoscience and other areas of scientific and industrial research. Our process equipment products precisely deposit or remove (etch) various materials in the manufacturing of advanced thin film magnetic heads (TFMHs) for the data storage industry, semiconductor deposition of mask reticles, and wireless/telecommunications and high brightness light emitting diode devices (HB-LED). During 2004, the Company split out the former process equipment segment into two separate reportable segments. The first segment, called Ion Beam and Mechanical Process Equipment combines the etch, deposition and dicing and slicing products sold mostly to data storage customers. The second segment, called Epitaxial Process Equipment, includes the Molecular Beam Epitaxy (MBE) and Metal Organic Chemical Vapor Deposition (MOCVD) products primarily sold to HB-LED and wireless telecommunications customers. As such, the Company has restated the segment information for prior periods as if the composition of its reportable segments described above had existed in such prior periods. Our metrology equipment is used to provide critical surface measurements on semiconductor devices and TFMHs. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality. Our metrology solutions are also key research instruments used by many universities, scientific laboratories and industrial applications.

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

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

Highlights of the Second Quarter of 2004:

Orders of $124.7 million, up from $64.0 million in the second quarter of 2003. The order growth included $43.1 million from companies acquired in 2003 and $17.6 million (27.6%) from Veeco s historical business.

Sales of $99.2 million, up from $73.4 million in the second quarter of 2003. The sales growth included $17.6 million from companies acquired in 2003 and $8.2 million (11.1%) from Veeco s historical business.

Net loss of $1.7 million, compared with a net loss of $1.1 million in the second quarter of 2003.

Cash generation of $5.6 million, compared with cash generation of $1.8 million in the second quarter of 2003.

Highlights of the First Half of 2004:

Orders of $241.8 million, up from $136.7 million in the first half of 2003. The order growth included $79.0 million from companies acquired in 2003 and $26.1 million (19.0%) from Veeco s historical business.

Sales of $190.1 million, up from $139.2 million in the first half of 2003. The sales growth included $33.6 million from companies acquired in 2003 and $17.3 million (12.4%) from Veeco s historical business.

Net loss of $4.4 million, compared with a net loss of $2.8 million in the first half of 2003.

Cash generation of $10.6 million, compared with cash use of $3.9 million in the first half of 2003.

Outlook/Opportunities:

In the first half of 2004, Veeco experienced a significant improvement in orders from its information age markets: data storage, semiconductor and compound semiconductor/wireless, driven by technology changes and increased capital expenditures across these markets. Overall, worldwide economic conditions appear to have improved. Consumer spending on many types of electronics has increased and various worldwide economies, such as those in the Asia-Pacific (APAC) region, are experiencing growth. The Company reviews a number of indicators to predict the strength of our markets going forward. These include plant utilization

trends, capacity requirements, and capital spending trends. Veeco s management currently sees particular strength in its compound semiconductor/wireless business, driven by capacity expansion and MOCVD equipment purchases by HB-LED manufacturers in North America, Europe and APAC. In fact, MOCVD products represented approximately 39% of Veeco s June 2004 backlog. The data storage industry also showed strong growth for Veeco in the first half of 2004. While Veeco s long-term outlook for data storage remains quite optimistic, this business continues to experience quarterly fluctuations due to continued capital spending management by our key customers.

Technology changes are continuing in all of Veeco s markets: the continued ramp of 80 GB hard drives in data storage and investments in next generation drives (120GB); the increased use of Veeco s automated AFMs for sub 130 nanometer semiconductor applications; the opportunity for Veeco s MOCVD and MBE to further penetrate the emerging HB-LED and wireless market; and the continued funding of nanoscience research which is one driver of Veeco s scientific research business.

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

Recent Events:

Internal Accounting Investigation; Restatement of 2004 Financial Results

On February 11, 2005, Veeco announced the postponement of the release of audited results for the fourth quarter and year ended December 31, 2004, pending completion of an internal investigation of improper accounting transactions at its TurboDisc® business unit. Veeco acquired the assets of TurboDisc in November 2003. The investigation focused principally on the value of inventory, accounts payable and certain liabilities, as well as certain revenue transactions of TurboDisc. The investigation was commenced after Veeco s internal audit staff and corporate financial management discovered improper accounting transactions in the course of a Veeco internal audit and transitioning the business to Veeco s SAP accounting system during the fourth quarter of 2004. The Audit Committee of the Company s Board of Directors supervised the accounting investigation and authorized Veeco s outside counsel, Kaye Scholer LLP, to hire Jefferson Wells International to perform forensics and accounting reconstruction work as part of the investigation. The investigation has been completed. Conclusions reached during the investigation included that the improper accounting entries were made by a single individual at TurboDisc whose employment had been terminated prior to the commencement of the investigation, and that there was no evidence found of embezzlement or diversion of corporate assets.

The results of the investigation led to the restatement of financial statements previously issued for the three quarterly periods and nine months ended September 30, 2004. The restatement included a $10.2 million adjustment to pre-tax earnings, comprised of $8.1 million in adjustments relating to inventory, accruals and accounts payable and $2.1 million in adjustments relating to revenue recognition issues. Additional information relating to the restatement is included in Note 2 to the (unaudited) condensed consolidated financial statements. Veeco has made a number of personnel changes to help strengthen the management of the epitaxial process equipment group and the TurboDisc business unit since the discovery of the accounting issues giving rise to the investigation, including the replacement of the General Manager of the epitaxial process equipment group, creation of the positions of General Manager of the TurboDisc business unit, General Manager of the St. Paul MBE site, Group Controller of the epitaxial process equipment group and the appointment of a new controller of the TurboDisc business unit.

The adjustments included in the restatement are summarized in the tables included in Note 2 to the (unaudited) condensed consolidated financial statements.

Results of Operations:

Three Months Ended June 30, 2004 and 2003

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

	Three Months ended June 30,				Dollar Incr/(Decr) Year to year (Restated)
	2004 (Restated)		2003		
Net sales	$ 99,246	100.0%	$ 73,449	100.0%	$ 25,797
Cost of sales	58,331	58.8	40,655	55.4	17,676
Gross profit	40,915	41.2	32,794	44.6	8,121
Operating expenses:					
Selling, general and administrative expense	21,686	21.9	17,899	24.4	3,787
Research and development expense	14,589	14.7	11,708	15.9	2,881
Amortization expense	4,575	4.6	3,159	4.3	1,416
Other income, net	(355)	(0.4)	(22)	0.0	(333)
Restructuring expenses			789	1.0	(789)
Total operating expenses	40,495	40.8	33,533	45.6	6,962
Operating income (loss)	420	0.4)	(739)	(1.0)	1,159
Interest expense, net	2,239	2.2	1,886	2.6	353
Loss before income taxes	(1,819)	(1.8)	(2,625)	(3.6)	806
Income tax benefit	(162)	(0.1)	(1,490)	(2.1)	1,328
Net loss	$ (1,657)	(1.7)%	$ (1,135)	(1.5)%	$ (522)

	Sales				Orders					
	Three Months ended June 30,		Dollar and Percentage Incr/(Decr) Year to Year		Three Months ended June 30,		Dollar and Percentage Incr/(Decr) Year to Year		Book to Bill Ratio	
	2004 Restated	2003	Restated		2004	2003			2004 Restated	2003
Segment Analysis										
Ion Beam and Mechanical Process Equipment	$ 37,905	$ 25,639	$ 12,266	47.8%	$ 26,938	$ 22,587	$ 4,351	19.3%	0.71	0.88
Epitaxial Process Equipment	19,078	8,641	10,437	120.8	55,786	4,937	50,849	1030	2.92	0.57
Metrology	42,263	39,169	3,094	7.9	42,016	36,477	5,539	15.2	0.99	0.93
Total	$ 99,246	$ 73,449	$ 25,797	35.1%	$ 124,740	$ 64,001	$ 60,739	94.9%	1.26	0.87
Industry Analysis										
Data Storage	$ 35,510	$ 24,352	$ 11,158	45.8%	$ 26,440	$ 19,397	$ 7,043	36.3%	0.74	0.80
HB_LED/wireless	20,947	12,300	8,647	70.3	51,112	9,744	41,368	424.5	2.44	0.79
Semiconductor	15,517	10,780	4,737	43.9	22,258	7,249	15,009	207.0	1.43	0.67
Research and Industrial	27,272	26,017	1,255	4.8	24,930	27,611	(2,681)	(9.7)	0.91	1.06
Total	$ 99,246	$ 73,449	$ 25,797	35.1%	$ 124,740	$ 64,001	$ 60,739	94.9%	1.26	0.87
Regional Analysis										
US	$ 40,936	$ 27,539	$ 13,397	48.6%	$ 57,165	$ 26,980	$ 30,185	111.9%	1.40	0.98
Europe	17,207	13,105	4,102	31.3	13,848	10,559	3,289	31.1	0.80	0.81
Japan	15,374	15,867	(493)	(3.1)	19,066	12,466	6,600	52.9	1.24	0.79
Asia-Pacific	25,729	16,938	8,791	51.9	34,661	13,996	20,665	147.6	1.35	0.83
Total	$ 99,246	$ 73,449	$ 25,797	35.1%	$ 124,740	$ 64,001	$ 60,739	94.9%	1.26	0.87

During the quarter ended September 30, 2004, the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change. The Company currently manages, reviews operating results, and assesses performance, as well as allocates resources, based upon this reporting structure. The change implemented by the Company was to split out the former process equipment segment into two separate reporting segments. The new ion beam and mechanical process equipment segment combines the etch, deposition, and dicing and slicing products sold mostly to data storage customers. The new epitaxial process equipment segment includes the MBE and MOCVD products sold to HB-LED and wireless customers. The metrology segment remains unchanged. Accordingly, the Company has restated the segment information for the prior periods.

Net sales of $99.2 million for the second quarter of 2004 were up 35.1% from the comparable 2003 period. By segment, ion beam and mechanical process equipment sales increased by $12.3 million or 47.8%, epitaxial process equipment sales increased by $10.4 million or 120.8%, and metrology sales increased by $3.1 million or 7.9%. The improvement in ion beam and mechanical process equipment sales is principally attributable to increases in the data storage market. While $3.4 million of the $12.3 million increase is attributable to the acquisition of Aii, Veeco s historic ion beam and mechanical process equipment business experienced a 34.5% increase in net sales in the second quarter of 2004 compared to the second quarter of 2003. The improvement in epitaxial process equipment sales is principally attributable to increases in the compound semiconductor market. While the newly acquired TurboDisc business unit contributed $14.2 million in net sales, it was offset by $3.8 million of MBE products. The $3.1 million improvement in metrology sales is principally attributable to increased optical metrology sales to the scientific research market and increased automated AFM sales to the semiconductor market. By region, there continues to be a shift in sales from the U.S. to the Asia-Pacific region. We are also beginning to see our customers shift manufacturing from Japan to the Asia-Pacific region. Overall, all regional sales have increased due to the acquisitions of the TurboDisc business unit and Aii, except Japan, which was down 3.1% compared to the second quarter of 2003. In our Asia-Pacific region sales experienced significant growth, accounting for an $8.8 million increase in sales in the second quarter of 2004 due to the acquired companies and the manufacturing base shifts noted above. The Company believes that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Orders of $124.7 million for the second quarter of 2004 represented an increase of $60.7 million, or 94.9%, over the comparable 2003 period. By segment, the 103.0% improvement in epitaxial process equipment orders was driven by a total of $42.4 million in orders for TurboDisc and an increase in Veeco s historic epitaxial process equipment business of $8.4 million. The 19.3% increase in ion beam and mechanical process equipment was made up of a $3.7 million increase in Veeco s historic ion beam and mechanical process equipment business as well as $0.7 million in orders from the newly acquired Aii business. The 15.2% increase in metrology orders was due to an $8.0 million increase in AFM

orders, mostly automated AFM tools sold to the semiconductor business, partially offset by a $2.5 million decrease in optical metrology products across all segments.

The Company s book/bill ratio for the second quarter of 2004, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.26. During the quarter ended June 30, 2004, the Company experienced order cancellations of $4.2 million and the rescheduling of order delivery dates by customers. The Company s backlog as of June 30, 2004, was approximately $171.5 million. Due to changing business conditions and customer requirements, the Company may continue to experience cancellations and/or rescheduling of orders.

Gross profit for the quarter ended June 30, 2004, was 41.2%, compared to 44.6% in the second quarter of 2003. This decrease

was partially due to a 10.7% mix shift from the higher margin metrology segment to the lower margin process equipment segments, largely due to the 2003 acquisitions. Ion beam and mechanical process equipment margins decreased from 42.1% to 35.2%, while epitaxial process equipment margins decreased from 31.6% to 22.6%. The ion beam and mechanical process equipment gross margin was impacted by an unfavorable tool mix including lower margins for certain advance development products, while the epitaxial process equipment gross margin was impacted by lower than expected margins in Veeco s newly acquired TurboDisc business. Metrology gross margins increased from 49.9% to 55.0%. The second quarter 2004 metrology gross margin was consistent with the average 2003 metrology gross margin, but higher than the metrology gross margin for the second quarter of 2003 due to unfavorable product mix during such period.

Selling, general and administrative expenses were $21.7 million, or 21.9% of sales in the second quarter of 2004, compared with $17.9 million, or 24.4% in the second quarter of 2003. Of the $3.8 million increase, $3.0 million was due to the TurboDisc and Aii acquisitions, with the balance attributable to higher selling expenses related to the increase in sales, as well as consulting and audit costs related to the implementation of Section 404 of Sarbanes-Oxley, relocation costs and bonus accruals.

Research and development expense totaled $14.6 million in the second quarter of 2004, an increase of $2.9 million from the second quarter of 2003, also due to spending in the newly acquired TurboDisc and Aii divisions. As a percentage of sales, research and development decreased in the second quarter of 2004 to 14.7% from 15.9% for the second quarter of 2003.

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

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

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

Income taxes for the quarter ended June 30, 2004, amounted to a benefit of $0.2 million, or 8.9% of loss before income taxes as compared with a benefit of $1.5 million, or 56.8% of loss before income taxes in 2003. The lower than statutory effective benefit rate in 2004 was a result of foreign taxes offsetting the benefits of domestic losses. The higher than statutory effective benefit rate in 2003 was a result of the impact of foreign and state tax benefits.

Six Months Ended June 30, 2004 and 2003

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

	Six Months ended June 30, 2004 Restated		2003		Dollar Incr/(Decr) Year to year Restated
Net sales	$ 190,109	100.0%	$ 139,228	100.0%	$ 50,881
Cost of sales	112,396	59.1	75,228	54.0	37,168
Gross profit	77,713	40.9	64,000	46.0	13,713
Operating expenses:					
Selling, general and administrative expense	41,576	21.9	34,814	25.0	6,762
Research and development expense	28,616	15.0	23,866	17.1	4,750
Amortization expense	9,471	5.0	6,301	4.5	3,170
Other income, net	(641)	(0.3)	(895)	(0.6)	254
Restructuring expenses			1,457	1.1	(1,457)
Total operating expenses	79,022	41.6	65,543	47.1	13,479
Operating loss	(1,309)	(0.7)	(1,543)	(1.1)	234
Interest expense, net	4,438	2.3	3,653	2.6	785
Loss before income taxes	(5,747)	(3.0)	(5,196)	(3.7)	(551)
Income tax benefit	(1,380)	(0.7)	(2,364)	(1.7)	984
Net loss	$ (4,367)	(2.3)%	$ (2,832)	(2.0)%	$ (1,535)

	Sales: Six Months ended June 30, 2004 Restated	2003	Dollar and Percentage Incr/(Decr) Year to Year Restated		Orders: Six Months ended June 30, 2004	2003	Dollar and Percentage Incr/(Decr) Year to Year		Book to Bill Ratio 2004 Restated	2003
Segment Analysis										
Ion Beam and Mechanical Process Equipment	$ 73,253	$ 47,048	$ 26,205	55.7%	$ 74,206	$ 53,151	$ 21,055	39.6%	1.01	1.13
Epitaxial Process Equipment	33,035	16,840	16,195	96.2	93,686	12,687	80,999	638.4	2.84	0.75
Metrology	83,821	75,340	8,481	11.3	73,909	70,908	3,001	4.2	0.88	0.94
Total	$ 190,109	$ 139,228	$ 50,881	36.5%	$ 241,801	$ 136,746	$ 105,055	76.8%	1.27	0.98
Industry Analysis										
Data Storage	$ 66,966	$ 43,405	$ 23,561	54.3%	$ 71,388	$ 49,097	$ 22,291	45.4%	1.07	1.13
HB-LED/wireless	37,977	18,496	19,481	105.3	90,093	20,205	69,888	345.9	2.37	1.09
Semiconductor	28,821	22,077	6,744	30.5	32,321	19,051	13,270	69.7	1.12	0.86
Research and Industrial	56,345	55,250	1,095	2.0	47,999	48,393	(394)	(0.8)	0.85	0.88
Total	$ 190,109	$ 139,228	$ 50,881	36.5%	$ 241,801	$ 136,746	$ 105,055	76.8%	1.27	0.98
Regional Analysis										
US	$ 71,771	$ 52,643	$ 19,128	36.3%	$ 101,238	$ 56,555	$ 44,683	79.0%	1.41	1.07
Europe	30,542	25,069	5,473	21.8	26,552	19,446	7,106	36.5	0.87	0.78
Japan	34,510	31,387	3,123	9.9	35,591	30,546	5,045	16.5	1.03	0.97
Asia-Pacific	53,286	30,129	23,157	76.9	78,420	30,199	48,221	159.7	1.47	1.00

Total	$ 190,109	$ 139,228	$ 50,881	36.5%	$ 241,801	$ 136,746	$ 105,055	76.8%	1.27	0.98

During the quarter ended September 30, 2004, the Company changed the structure of its internal organization in a manner that caused the composition of its reportable segments to change. The Company currently manages, reviews operating results, and assesses performance, as well as allocates resources, based upon this reporting structure. The change implemented by the Company was to split out the former process equipment segment into two separate reporting segments. The new ion beam and mechanical process equipment segment combines the etch, deposition, and dicing and slicing products sold mostly to data storage customers. The new epitaxial process equipment segment includes the MBE and MOCVD products sold to HB-LED and wireless customers. The metrology segment remains unchanged. Accordingly, the Company has restated the segment information for the prior periods.

Net sales of $190.1 million for the six months ended June 30, 2004 were up 36.5% from the comparable 2003 period. By segment, ion beam and mechanical process equipment sales were up $26.2 million or 55.7%, epitaxial process equipment sales were up $16.2 million or 96.2%, while metrology sales increased by $8.5 million or 11.3%. The improvement in ion beam and mechanical process equipment sales is principally attributable to increases in the data storage market. While $10.3 million of the $26.2 million increase is attributable to the acquisition of Aii, Veeco s historic ion beam and mechanical process equipment business experienced a 33.7% increase in net sales during the six months ended June 30, 2004 when compared to the corresponding period of 2003. The improvement in epitaxial process equipment sales is principally attributable to increases in the compound semiconductor market. While the newly acquired TurboDisc business unit contributed $23.3 million in net sales, it was offset by a $7.1 million decrease in net sales of MBE products. The $8.5 million improvement in metrology sales is principally attributable to increased optical metrology sales to the scientific research market and increased automated AFM sales to the semiconductor market. By region, there continues to be a shift in sales from the U.S. to the Asia-Pacific region, although all regional sales have increased due to the acquisitions of the TurboDisc business unit and Aii, particularly the Asia-Pacific region, which experienced a $23.2 million increase in sales in the six months ended June 30, 2004 due to the acquired companies and the manufacturing base shifts noted above. The Company believes that there will continue to be period-to-period variations in the geographic distribution of sales.

Orders of $241.8 million for the six months ended June 30, 2004 represented a $105.1 million, or a 76.8% increase over the comparable 2003 period. By segment, the 638.4% improvement in epitaxial process equipment orders was driven by a total of $74.1 million in orders for TurboDisc systems plus a net $6.9 million increase in the historic epitaxial process equipment business. The 39.6% increase in ion beam and mechanical process equipment was due to a total of $5.0 million in orders for Aii and an increase in orders for the historic ion beam and mechanical process equipment business of $16.1 million. The 4.2% improvement in metrology orders was due to a $7.2 million increase in AFM products, mainly automated AFM orders to the semiconductor market, and was partially offset by a $4.2 million net decrease in optical metrology products, resulting from decreases in orders from data storage and semiconductor customers.

The Company s book/bill ratio for the six months ended June 30, 2004, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.27.

Gross profit for the six months ended June 30, 2004, was 40.9%, including a $1.5 million reduction in gross profit related to the acquisitions of TurboDisc and Aii. This charge was the result of purchase accounting adjustments due to the required capitalization of profit in inventory and the permanent elimination of certain deferred revenue. Excluding the impact of these adjustments, gross profit as a percentage of net sales was 41.7% in the six months ended June 30, 2004, compared to 46.0% in the comparable period of 2003. This decrease was mostly due to a 10.1% product mix shift from the higher margin metrology segment to the lower margin process equipment segments, largely due to the 2003 acquisitions. Excluding the purchase accounting charges described above, ion beam and mechanical process equipment margins decreased from 40.6% to 35.1%. The ion beam and mechanical process equipment gross margin was impacted by an unfavorable tool mix including lower margins for certain advance development products. Excluding the purchase accounting charges, epitaxial process equipment margins declined from 35.1% in 2003 to 24.7% in 2004 mostly due to higher material and warranty costs at the TurboDisc division. Metrology gross margins increased from 52.1% to 54.0% during the first six months of 2004, as compared to the same period of 2003. The metrology gross margin for the first six months of 2004 was consistent with the average 2003 metrology gross margin, but below the first six months of 2003 due to an unfavorable product mix in the first half of 2003.

Selling, general and administrative expenses were $41.6 million, or 21.9% of sales in the six months ended June 30, 2004, compared with $34.8 million, or 25.0% in the six months ended June 30, 2003. Of the $6.8 million increase, $5.5 million was due to the TurboDisc and Aii acquisitions, with the balance attributable to higher selling expenses related to the increase in sales.

Research and development expense totaled $28.6 million during the first six months of 2004, an increase of $4.8 million from the first six months of 2003. The increase is primarily attributable to $3.9 million in spending in the newly acquired TurboDisc and Aii divisions. As a percentage of sales, research and development decreased during the six months ended June 30, 2004 to 15.0% from 17.1% for the corresponding period of 2003.

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

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

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

Income taxes for the six months ended June 30, 2004, amounted to a benefit of $1.4 million, or 24.0% of loss before income taxes as compared with a benefit of $2.4 million, or 45.5% of loss before income taxes in 2003. The lower than statutory effective rate in 2004 was a result of foreign taxes offsetting the benefits of domestic losses. The higher than statutory effective benefit rate in 2003 was a result of the impact of foreign and state tax benefits.

Liquidity and Capital Resources

The Company had a net increase in cash of $10.6 million in the six months ended June 30, 2004. Cash provided by operations was $6.5 million for this period, as compared to cash provided by operations of $1.7 million for the comparable 2003 period. Net income adjusted for non-cash items provided operating cash flows of $6.9 million for the six months ended June 30, 2004, compared to $3.3 million for the comparable 2003 period. Accounts receivable for the six months ended June 30, 2004, increased by $16.7 million, primarily as a result of higher sales volume. During the six months ended June 30, 2004, inventories increased by approximately $11.2 million, principally related to the build up of raw materials and work-in-process for products to be shipped in the third quarter of 2004. During the six months ended June 30, 2004, accounts payable increased by $8.9 million, principally as a result of increased purchase of materials to meet shipment demand. Accrued expenses and other current liabilities increased $17.4 million during the six months ended June 30, 2004. This increase is due to a $10.1 million increase in customer deposits, a $2.9 million increase in accrued salaries and benefits, accrued installation and warranty costs of $1.4 million, accrued commissions of $0.9 million, and other smaller items that amounted to an additional increase of $2.1 million.

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

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

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Company s $100.0 million revolving credit facility (the Facility) will be sufficient to meet the Company s projected working capital and other cash flow requirements for the next twelve months, as well as the Company s contractual obligations, over the next three years. Amounts available for borrowing under the Facility are subject to certain financial tests. At June 30, 2004, the amount available for borrowing under the facility was approximately $100.0 million. The Company believes it will be able to meet its obligation to repay the outstanding $220.0 million subordinated notes that mature on December 21, 2008 through a combination of conversion of the notes outstanding, refinancing, cash generated from operations, and/or other means. The Company is required to pay interest on the outstanding convertible subordinated notes in June and December of each year until the notes mature. Based on the full outstanding value of the notes as of June 30, 2004, the semi-annual interest obligation is approximately $4.5 million. The Company believes it will be able to meet its obligation to pay the interest required through existing cash balances and cash generated from operations. In connection with the issuance of these notes, the Company purchased U.S government securities, to secure the first six scheduled interest payments due on the notes. The last of these securities will be used for the interest payment due in December 2004.

The Company is potentially liable for payment of earn-out provisions to the former owners of the businesses acquired in 2003 based on operating targets achieved by those acquired businesses. The maximum amount of these contingent liabilities is $33 million consisting of $9 million to the former shareholders of Aii, $4 million to Nanodevices, Inc., and $20 million to Emcore, the former owner of TurboDisc. Earn-out amounts would be paid to Nanodevices, Inc., during each of the first quarters of 2005, 2006 and 2007 if revenue targets are reached during the proceeding year, and/or upon reaching certain rolling 12-month production goals. Earn-out amounts would be paid during each of the first quarters of 2005, 2006 and 2007 to the former owners of Aii, and during each of the first quarters of 2005 and 2006 to Emcore if revenue targets are met. Payments to the former shareholders of Aii and to Emcore are based on a set percentage of revenues in excess of certain targets for the

preceding fiscal year. Based on the Company s current estimates, it expects to pay approximately $1.0 million of the amount potentially payable to Nanodevices, Inc., in 2004 and approximately $1.5 million during the first quarter of 2005. Additionally, the Company expects to pay a substantial portion of the amount potentially liable to Emcore during the first quarter of 2005. Aside from the estimates noted herein, the Company does not have an estimate of how much, or when, amounts may be due to the former owners of Aii and Nanodevices for each fiscal year.

Application of Critical Accounting Policies

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

Revenue Recognition: Effective January 1, 2000, the Company changed its method for accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.* In December 2003, the SEC issued SAB No. 104, *Revenue Recognition,* which updates the guidance provided in SAB No. 101, integrates the related Frequently Asked Questions, and recognizes the role of the FASB s Emerging Issues Task Force (EITF) consensus on Issue 00-21. SAB No. 104 deletes certain interpretive material no longer necessary, and conforms the remaining interpretative material retained to the pronouncements issued by the EITF on various revenue recognition topics, including EITF 00-21. It further clarifies that a company should first refer to EITF 00-21 in order to determine if there is more than one unit of accounting and then to refer to SAB No. 104 for revenue recognition for the unit of accounting. The Company recognizes revenue when persuasive evidence of an arrangement exists, the seller s price is fixed or determinable and collectibility is reasonably assured. For products produced according to the Company s published specifications, where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment. For products produced according to a particular customer s specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer s specifications and title passes to the customer. The amount of revenue recorded is reduced by the amount of any customer retention (generally 10% to 20%), which is not payable by the customer until installation is completed and final customer acceptance is achieved. Installation is not deemed to be essential to the functionality of the equipment since installation does not involve significant changes to the features or capabilities of the equipment or building complex interfaces and connections. In addition, the equipment could be installed by the customer or other vendors and generally the cost of installation approximates only 1% to 2% of the sales value of the related equipment. For new products, new applications of existing products, or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, revenue is recognized upon completion of installation and receipt of final customer acceptance. Since title to goods generally passes to the customer upon shipment and 80% to 90% of the contract amount becomes payable at that time, inventory is relieved and accounts receivable is recorded for the amount billed at the time of shipment. The profit on the amount billed for these transactions is deferred and recorded as deferred profit in the accompanying balance sheets. At June 30, 2004 and December 31, 2003, $4.6 million and $2.1 million, respectively, are recorded in deferred profit. Service and maintenance contract revenues are recorded as deferred revenue, which is included in other accrued expenses, and recognized as revenue on a straight-line basis over the service period of the related contract. The

Company provides for warranty costs at the time the related revenue is recognized.

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

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

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

Deferred Taxes: As part of the process of preparing Veeco s consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. The measurement of deferred tax assets is adjusted by a valuation allowance to recognize the extent to which, more likely than not, the future tax benefits will be recognized.

At June 30, 2004, we have deferred tax assets, net of valuation allowances, of $47.5 million. We believe it is more likely than not that we will be able to realize these assets through the reduction of future taxable income.

We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, we consider a variety of factors, including the scheduled reversal of deferred tax liabilities, future taxable income, and prudent and feasible tax planning strategies. Should we determine that we are unable to use all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income tax expense, thereby reducing net income in the period such determination was made.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Veeco s net sales to foreign customers represented approximately 59% and 62% of Veeco s total net sales for the three and six months ended June 30, 2004, respectively, and 62% for both the three and six months ended June 30, 2003, respectively. The Company expects that net sales to foreign customers will continue to represent a large percentage of Veeco s total net sales. Veeco s net sales denominated in foreign currencies represented approximately 19% and 21% of Veeco s total net sales for the three and six months ended June 30, 2004, respectively, and 22% and 26% of Veeco s total net sales for the three and six months ended June 30, 2003, respectively. The aggregate foreign currency exchange gains for the three and six months ended June 30, 2004, were $0.1 million and $0.3 million, respectively, compared to $0.0 million and $0.2 million for the three and six months ended June 30, 2003. Included in the aggregate foreign currency exchange gains were gains (losses) relating to forward contracts of $0.0 million and $0.2 million for the three and six months ended June 30, 2004, respectively, compared to $(0.4) million and $(0.5) million for the three and six months ended June 30, 2003. Veeco is exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have had the largest impact on translating Veeco s international operating profit related to exchange rates for the Japanese Yen and the Euro. To mitigate these risks, Veeco uses derivative financial instruments. Veeco does not use derivative financial instruments for speculative or trading purposes. The Company entered into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known currency exposures. The average notional amount was $4.4 million and $4.8 million for the three and six months ended June 30, 2004, respectively. As of June 30, 2004, the Company had entered into forward contracts for the month of July for the notional amount of approximately $4.2 million, which approximates the fair market value on June 30, 2004. The Company entered into a forward contract on April 21, 2004, for the notional amount of $0.5 million which approximates the fair market value on June 30, 2004. This contract will be settled on or about November 1, 2004. On April 22, 2004 the Company entered into an additional forward contract for the notional amount of $0.5 million, which approximates fair value as of June 30, 2004. This contract will be settled on or about March 1, 2005.

Item 4. Controls and Procedures.

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

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

As required by SEC Rule 13a-15(b), Veeco conducted an evaluation, under the supervision and with the participation of Veeco s management, including Veeco s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of its fiscal year. As a result of the discovery by management of improper accounting entries made at its TurboDisc business unit which led to adjustments requiring the restatement of the Company s financial statements for the quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004, management has now determined that a deficiency existed in the internal control over financial reporting at the end of such quarterly periods. Since November 10, 2003, the date of the acquisition of the assets constituting the TurboDisc business unit, the business unit was operating under a legacy accounting system which was under the supervision of

one individual and did not provide management with the depth of information Veeco is typically accustomed to. Management determined to institute a new accounting system at the business unit and in the course of the final implementation of such system in the quarter ended December 31, 2004, the improper accounting entries were discovered. Management believes that the new accounting system and attendant control process, together with the replacement of financial personnel at the TurboDisc business unit has remedied the deficiency in control over financial reporting that lead to the restatement.

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

Part II. Other Information

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

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

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

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

Item 6. Exhibits.

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

Number	Description	Incorporated by Reference to the Following Document:
10.1	Amendment No. 2 to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan, effective May 7, 2004.	Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004, Exhibit 10.1
10.2	Veeco Instruments Inc. 2000 Stock Incentive Plan (formerly known as the 2000 Stock Option Plan, as amended), effective May 7, 2004.	Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004, Exhibit 10.2
31.1	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

* Filed herewith

SIGNATURES

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

Date: March 31, 2005

Veeco Instruments Inc.

By:	/s/ EDWARD H. BRAUN **Edward H. Braun** ***Chairman and Chief Executive Officer***
By:	/s/ JOHN F. REIN, JR. John F. Rein, Jr. *Executive Vice President, Chief Financial Officer and Secretary*

INDEX TO EXHIBITS

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

Number	Description	Incorporated by Reference to the Following Document:
10.1	Amendment No. 2 to the Veeco Instruments Inc. First Amended and Restated Employee Stock Purchase Plan, effective May 7, 2004.	Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004, Exhibit 10.1
10.2	Veeco Instruments Inc. 2000 Stock Incentive Plan (formerly known as the 2000 Stock Option Plan, as amended), effective May 7, 2004.	Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004, Exhibit 10.2
31.1	Certification of Chief Executive Officer pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

---

* Filed herewith