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 March 31, 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)
100 Sunnyside Boulevard, Suite B	**11797**
Woodbury, New York	(Zip Code)
(Address of Principal Executive Offices)	

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

29,630,153 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on April 27, 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 simila 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 March 31, 2004 was initially filed with the Securities and Exchange Commission (SEC) on May 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 month period ended March 31, 2004; condensed consolidated balance sheets as at March 31, 2004; and to make certain conforming changes. On March 16, 2005, we announced that we would restate our condensed 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 Item 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 March 31, 2004, see:

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

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 March 31, 2004.

VEECO INSTRUMENTS INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2004	**2003**
	(Restated)	
Net sales	$ 90,863	$ 65,779
Cost of sales	54,065	34,573
Gross profit	36,798	31,206
Costs and expenses:		
Selling, general and administrative expense	19,890	16,915
Research and development expense	14,027	12,158
Amortization expense	4,896	3,142
Other income, net	(286)	(873)
Restructuring expense		668
Operating loss	(1,729)	(804)
Interest expense, net	2,199	1,767
Loss before income taxes	(3,928)	(2,571)
Income tax benefit	(1,218)	(874)
Net loss	$ (2,710)	$ (1,697)
Net loss per common share	$ (0.09)	$ (0.06)
Diluted net loss per common share	$ (0.09)	$ (0.06)
Weighted average shares outstanding	29,569	29,224
Diluted weighted average shares outstanding	29,569	29,224

See accompanying notes.

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2004 (Unaudited) (Restated)	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 111,831	$ 106,830
Accounts receivable, less allowance for doubtful accounts of $2,609 in 2004 and $2,458 in 2003	72,574	69,890
Inventories	105,043	97,622
Prepaid expenses and other current assets	14,065	15,823
Deferred income taxes	31,400	24,693
Total current assets	334,913	314,858
Property, plant and equipment at cost, less accumulated depreciation of $65,651 in 2004 and $62,503 in 2003	70,903	72,742
Goodwill	72,989	72,989
Purchased technology, less accumulated amortization of $28,978 in 2004 and $25,519 in 2003	82,390	85,849
Other intangible assets, less accumulated amortization of $16,284 in 2004 and $14,846 in 2003	17,633	18,842
Long-term investments	12,461	12,376
Deferred income taxes	13,909	18,136
Other assets, net	927	672
Total assets	$ 606,125	$ 596,464
Liabilities and shareholders equity		
Current Liabilities:		
Accounts payable	$ 25,011	$ 19,603
Accrued expenses	36,607	31,616
Deferred profit	2,457	2,140
Income taxes payable	2,734	3,700
Current portion of long-term debt	338	333
Total current liabilities	67,147	57,392
Long-term debt, net of current portion	229,848	229,935
Other non-current liabilities	2,870	2,808
Shareholders equity	306,260	306,329
Total liabilities and shareholders equity	$ 606,125	$ 596,464

See accompanying notes.

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2004	2003
	(Restated)	
Operating Activities		
Net loss	$ (2,710)	$ (1,697)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,083	5,738
Deferred income taxes	(2,435)	(3,018)
Other	(17)	(685)
Changes in operating assets and liabilities:		
Accounts receivable	(2,261)	(6,229)
Inventories	(7,784)	(2,257)
Accounts payable	5,386	4,789
Accrued expenses, deferred profit and other current liabilities	4,227	(1,922)
Other, net	1,318	648
Net cash provided by (used in) operating activities	3,807	(4,633)
Investing Activities		
Capital expenditures	(1,408)	(1,826)
Proceeds from sale of fixed assets	26	7
Proceeds from sale of assets held for sale		1,111
Net purchase of long-term investments	(85)	(137)
Net cash used in investing activities	(1,467)	(845)
Financing Activities		
Proceeds from stock issuance	2,038	45
Repayment of long-term debt, net	(82)	(79)
Net cash provided by (used in) financing activities	1,956	(34)
Effect of exchange rates on cash and cash equivalents	705	(222)
Net change in cash and cash equivalents	5,001	(5,734)
Cash and cash equivalents at beginning of period	106,830	214,295
Cash and cash equivalents at end of period	$ 111,831	$ 208,561

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, 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 month period ended March 31, 2004 and the condensed consolidated balance sheet as of March 31, 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 755,000 and 160,000 for the three months ended March 31, 2004 and 2003, respectively, was antidilutive.

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

	Three Months Ended March 31,		
	2004		**2003**
Weighted average shares outstanding	29,569		29,224
Dilutive effect of stock options			
Diluted weighted average shares outstanding	29,569		29,224

In addition, the effect of the assumed conversion of subordinated convertible notes into approximately 5.7 million common equivalent shares was antidilutive for the three months ended March 31, 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, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions, under which compensation expense would be recognized as incurred, of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	March 31,			
	2004		2003	
	(In thousands, except per share amounts)			
	(Restated)			
Net loss, as reported	$	(2,710)	$	(1,697)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(2,750)		(4,808)
Pro forma net loss	$	(5,460)	$	(6,505)
Loss per common share:				
Net loss per common share, as reported	$	(0.09)	$	(0.06)
Net loss per common share, pro forma	$	(0.19)	$	(0.22)
Diluted net loss per common share, as reported	$	(0.09)	$	(0.06)
Diluted net loss per common share, pro forma	$	(0.19)	$	(0.22)

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 were $(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 month period ended March 31, 2004:

	Three Months Ended March 31, 2004		
	As filed	Adjustments (1)	Restated
Net sales	$ 94,487	$ (3,624)	$ 90,863
Cost of sales	54,649	(584)	54,065
Gross profit	39,838	(3,040)	36,798
Costs and expenses	38,767	(240)	38,527
Operating income (loss)	1,071	(2,800)	(1,729)
Interest expense, net	2,199		2,199
Loss before income taxes	(1,128)	(2,800)	(3,928)
Income tax benefit	(424)	(794)	(1,218)
Net loss	(704)	(2,006)	$ (2,710)
Loss per common share:			
Net loss per common share	$ (0.02)	$ (0.07)	$ (0.09)
Weighted average shares outstanding	29,569		29,569
Diluted weighted average shares outstanding	29,569		29,569

1. The $3.6 million reduction in revenue principally results from revenue recognition adjustments for certain system shipments. In each case, the revenue for these systems was recognized in the following quarter. The $0.6 million decrease in cost of sales results from a $2.5 million decrease in revenues due to the revenue recognition adjustments described above, partially offset by adjustments principally to inventory, accounts payable and certain accrued expenses. The decrease in costs and expenses of $0.2 million principally relates to the over accrual of certain operating expenses. The $0.8 million adjustment to income tax benefit is to reflect 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 March 31, 2004 that was previously filed on the Quarterly Report on Form 10-Q for the three month period ended March 31, 2004:

	As of March 31, 2004		
	As filed	Adjustments (1)	Restated
Assets			
Current assets	$ 340,999	$ (6,086)	$ 334,913
Non-current assets	267,027	4,185	271,212
Total assets	$ 608,026	(1,901)	606,125
Liabilities and shareholders equity			

Current liabilities	67,042	105	67,147
Non-current liabilities	232,718		232,718
Shareholders equity	308,266	(2,006)	306,260
Total liabilities and shareholders equity	$ 608,026	(1,901)	606,125

1. The $6.1 million reduction to current assets principally results from a $3.6 million decrease to accounts receivable resulting from revenue recognition adjustments, and a net decrease of $3.1 million to the current portion of deferred taxes due to a $4.2 million shift of the deferred tax asset from short-term to long-term net of a $1.1 million increase in the asset due to the higher loss incurred, which was partially offset by a $0.6 million increase to inventory principally resulting from the revenue recognition adjustments. The $4.2 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 $0.1 million increase in current liabilities is made up of a $0.3 million increase to income taxes payable relating to an adjustment of state tax liabilities, partially offset by a decrease of $0.2 million to accounts payable and accrued expenses principally relating to expenses applicable to the first quarter. The $2.0 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:

	March 31, 2004 (Restated)	December 31, 2003
	(In thousands)	
Raw materials	$ 49,090	$ 49,734
Work-in-progress	32,390	31,887
Finished goods	23,563	16,001
	$ 105,043	$ 97,622

Accrued Warranties

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

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

Balance as of January 1, 2004	$ 3,904
Warranties issued during the period	1,349
Settlements made during the period	(838)
Balance as of March 31, 2004	$ 4,415

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 represents the reportable product segments of the Company as of and for the three months ended March 31, 2004 and 2003, in thousands:

	Ion Beam and Mechanical Process Equipment	Epitaxial Process Equipment	Metrology	Unallocated Corporate Amount	Restructuring Charges	Total
Three Months Ended March 31, 2004 (Restated)						
Net sales	$ 35,348	$ 13,957	$ 41,558	$	$	$ 90,863
Income (loss) from operations before interest, taxes and amortization	1,799	(2,813)	6,062	(1,881)		3,167
Total assets	186,283	122,982	130,083	166,777		606,125
Three Months Ended March 31, 2003						
Net sales	21,409	8,199	36,171			65,779
(Loss) income from operations before interest, taxes and amortization	(255)	765	4,840	(2,344)	(668)	2,338
Total assets	$ 117,958	$ 66,308	$ 134,218	$ 289,196	$	$ 607,680

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

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

	March 31, 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

As defined by the Financial Accounting Standards Board (FASB), comprehensive loss is the change in equity of a business enterprise from transactions, other events, and circumstances from nonowner sources during a period. The Company incurred a total comprehensive loss of $2.1 million and $2.1 million for the three months ended March 31, 2004 and 2003, respectively. The Company s comprehensive loss is comprised of net loss, foreign currency translation adjustments and minimum pension liability.

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 Merger and 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. As of March 31, 2004, approximately $4.1 million has been paid and approximately $0.7 million remains accrued. The remainder is expected to be paid by the third quarter of 2005.

The Company also incurred $0.6 million in merger and acquisition related expenses, which were paid during the fourth quarter of 2003.

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 quarter ended March 31, 2004	0.5		0.5	0.1	1.1
Balance as of March 31, 2004	$ 0.5	$	$ 0.0	$ 0.2	$ 0.7

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 instruments are also enabling 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 in cash, plus a potential future cash earn-out payment of up to $3.0 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 for approximately $63.7 million, including transaction costs, plus a potential future cash 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 cash 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 First Quarter of 2004:

Orders of $117.1 million, up from $72.7 million in the first quarter of 2003. The order growth included $35.9 million from companies acquired in 2003 and $8.4 million (11.5%) from Veeco s base business.

Sales of $90.9 million, up from $65.8 million in the first quarter of 2003. The sales growth includes $16.1 million from companies acquired in 2003 and $9.0 million (13.7%) from Veeco s base business.

Net loss of $2.7 million, compared with a net loss of $1.7 million in the first quarter of 2003.

Cash generation of $5.0 million, compared with a cash use of $5.7 million in the first quarter of 2003. The cash generation included $3.8 million generated from operations.

Outlook/Opportunities

The last several years have been challenging for Veeco, its customers and peers due to the prolonged economic downturn and several years of under-investment in technology. In the first quarter of 2004, Veeco experienced a significant improvement in orders in data storage, compound semiconductor/wireless and research products, driven by increased capital expenditure 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 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.

Technology changes are continuing in all of Veeco s markets: the continued ramp of 80 GB hard drives in data storage; 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 wireless and HB-LED market; and the continued funding of nanoscience research. Veeco expects that its business will continue to improve in 2004 as compared to 2003, and that its newer technologies (MOCVD and precision bar lapping) will add over $80 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 year. However, 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 March 31, 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 March 31, 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 March 31,				Dollar Inc/(Dec)
	2004 (Restated)		2003		Year to year (Restated)
Net sales	$ 90,863	100.0%	$ 65,779	100.0%	$ 25,084
Cost of sales	54,065	59.5	34,573	52.6	19,492
Gross profit	36,798	40.5	31,206	47.4	5,592
Operating expenses:					
Selling, general and administrative expense	19,890	21.9	16,915	25.7	2,957
Research and development expense	14,027	15.4	12,158	18.5	1,887
Amortization expense	4,896	5.4	3,142	4.8	1,754
Other income, net	(286)	(0.3)	(873)	(1.3)	587
Merger and restructuring expenses			668	1.0	(668)
Total operating expenses	38,527	42.4	32,010	48.7	6,517
Operating income (loss)	(1,729)	(1.9)	(804)	(1.3)	(925)
Interest expense, net	2,199	2.4	1,767	2.6	432
Loss from operations before income taxes	(3,928)	(4.3)	(2,571)	(3.9)	(1,357)
Income tax benefit	(1,218)	(1.3)	(874)	(1.3)	(344)
Net loss	$ (2,710)	(3.0)%	$ (1,697)	(2.6)%	$ (1,013)

	Sales				Orders					
	Three Months ended March 31,		Dollar and Percentage Inc/(Dec)		Three Months ended March 31,		Dollar and Percentage Inc/(Dec)		Book to Bill Ratio	
	2004	2003	Year to Year		2004	2003	Year to Year		2004	2003
	(Restated)		(Restated)						(Restated)	
Segment Analysis										
Ion Beam and Mechanical Process Equipment	$ 35,348	$ 21,409	$ 13,939	65.1%	$ 47,268	$ 30,564	$ 16,704	54.7%	1.34	1.43
Epitaxial Process Equipment	13,957	8,199	5,758	70.2	37,900	7,750	30,150	389.0	2.72	.95
Metrology	41,558	36,171	5,387	14.9	31,893	34,431	(2,538)	(7.4)	0.77	0.95
Total	$ 90,863	$ 65,779	$ 25,084	38.1%	$ 117,061	$ 72,745	$ 44,316	60.9%	1.29	1.11
Industry Analysis										
Data Storage	$ 31,456	$ 19,053	$ 12,403	65.1%	$ 44,948	$ 29,700	$ 15,248	51.3%	1.43	1.56
HB-LED/wireless	17,030	6,196	10,834	174.9	38,981	10,461	28,520	272.6	2.29	1.69
Semiconductor	13,304	11,297	2,007	17.8	10,063	11,802	(1,739)	(14.7)	0.76	1.04
Research and Industrial	29,073	29,233	(160)	(0.5)	23,069	20,782	2,287	11.0	0.79	0.71
Total	$ 90,863	$ 65,779	25,084	38.1%	$ 117,061	$ 72,745	$ 44,316	60.9%	1.29	1.11
Regional Analysis										
US	$ 30,835	$ 25,104	$ 5,731	22.8%	$ 44,073	$ 29,575	$ 14,498	49.0%	1.43	1.18
Europe	13,335	11,975	1,360	11.4	12,704	8,887	3,817	43.0	0.95	0.74
Japan	19,136	15,520	3,616	23.3	16,525	18,080	(1,555)	(8.6)	0.86	1.16
Asia-Pacific	27,557	13,180	14,377	109.1	43,759	16,203	27,556	170.1	1.59	1.23
Total	$ 90,863	$ 65,779	$ 25,084	38.1%	$ 117,061	$ 72,745	$ 44,316	60.9%	1.29	1.11

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 $90.9 million for the first quarter of 2004 were up 38.1% from the comparable 2003 period. By segment, ion beam and mechanical process equipment sales were up $13.9 million or 65.1%, epitaxial process equipment sales were up $5.8 million or 70.2%, while metrology sales increased by $5.4 million or 14.9%. The improvement in ion beam and mechanical process equipment sales is principally attributable to increases in the data storage market. While $6.9 million of the $13.9 million increase is attributable to the acquisition of Aii, Veeco s historic ion beam and mechanical process equipment business experienced a 32.7% increase in net sales in the first quarter of 2004 when compared to the first 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 $9.1 million in net sales, it was offset by a $3.3 million decrease in net sales of MBE products. The $5.4 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 in the Asia-Pacific region, which saw a $10.2 million increase in sales in the first quarter of 2004 due to the acquired companies. The Company believes that there will continue to be quarter-to-quarter variations in the geographic distribution of sales.

Three Months Ended March 31, 2004 and 2003

Orders of $117.1 million for the first quarter of 2004 were a $44.3 million, or a 60.9% increase over the comparable 2003 period. By segment, the 389.0% improvement in epitaxial process equipment orders was driven by a total of $31.6 million in orders for TurboDisc offset by a decrease in MBE orders of $1.5 million. The 54.7% increase in ion beam and mechanical process equipment was due to a total of $4.3 million in orders for Aii and an increase in orders in Veeco s historic ion beam and mechanical process equipment business of $12.4 million. The 7.4% reduction in metrology orders was due to a $0.9 reduction in AFM and a $1.6 million decrease in optical metrology products, where there were a large number of slider crown systems ordered in the first quarter of 2003 that did not recur in 2004.

The Company s book/bill ratio for the first quarter of 2004, which is calculated by dividing orders received in a given time period by revenue recognized in the same time period, was 1.29. During the quarter ended March 31, 2004, the Company experienced order cancellations of $0.2 million and the rescheduling of order delivery dates by customers. 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 March 31, 2004, was 40.5%, 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 permanent elimination of certain deferred revenue. Excluding the impact of this purchase accounting adjustment, gross profit as a percentage of net sales was 42.1% in the first quarter of 2004, compared to 47.4% in the first quarter of 2003. This decrease was partially due to a 9.3% 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, ion beam and mechanical process equipment margins decreased from 38.9% to 35.1%. The ion beam and mechanical process equipment gross margin was impacted by a greater number of bifurcated sales in the first quarter of 2004 as compared to the first quarter of 2003, which results in the deferral of gross profit until final field acceptance. There was also a less favorable mix of products in the first quarter of 2004 as compared to the first quarter of 2003. Excluding the purchase accounting charges, epitaxial process equipment margins declined from 38.7% in 2003 to 27.6% in the first quarter of 2004 mostly due to higher material and warranty costs at the TurboDisc division. Metrology gross margins decreased from 54.5% to 52.9%. The first quarter 2004 metrology gross margin was consistent with the average 2003 metrology gross margin, but below the first quarter of 2003 which had a favorable product mix.

Selling, general and administrative expenses were $19.9 million, or 21.9% of sales in the first quarter of 2004, compared with$16.9 million, or 25.7% in the first quarter of 2003. Of the $3.0 million increase, $2.1 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 $14.0 million in the first quarter of 2004, an increase of $1.9 million from the first quarter of 2003, also due to the spending in the newly acquired TurboDisc business unit and Aii division. As a percentage of sales, research and development decreased in the first quarter of 2004 to 15.4% from 18.5% for the first quarter of 2003.

Other income, net, of $0.3 million for the first quarter of 2004 was principally due to foreign exchange gains, compared to a gain of $0.9 million in the first quarter of 2003, which was principally due to the sale of a laboratory tool.

Restructuring expenses for the first quarter of 2003 of $0.7 million were primarily due to severance for layoffs that were related to the actions announced in the fourth quarter of 2002. There were no merger or restructuring expenses in the first quarter of 2004.

Net interest expense in the first quarter of 2004 was $2.2 million compared to $1.8 million in the first quarter of 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 quarter ended March 31, 2004, amounted to a benefit of $1.2 million, or 31.0% of loss before income taxes as compared with a benefit of $0.9 million, or 34.0% of loss before income taxes in 2003.

Liquidity and Capital Resources

The Company had a net increase in cash of $5.0 million for the three months ended March 31, 2004. Cash provided by operations was $3.8 million for this period, as compared to cash used in operations of $4.6 million for the comparable 2003 period. Net loss adjusted for non-cash items provided operating cash flows of $2.9 million for the three months ended March 31, 2004, compared to $0.3 million for the comparable 2003 period. Included in the net cash provided by operations for the three months ended March 31, 2004 was a decrease in net operating assets and liabilities of $0.9 million. Accounts receivable for the three months ended March 31, 2004, increased by $2.3 million, primarily as a result of higher sales volumes. During the three months ended March 31, 2004, inventories increased by approximately $7.8 million, principally related to the build up of work-in-process and finished goods for products to be shipped in the second quarter of 2004. During the three months ended March 31, 2004, accounts payable increased by $5.4 million, principally as a result of higher purchase volumes to meet shipment demand. Accrued expenses and other current liabilities increased $4.2 million during the three months ended March 31, 2004 due to accrued interest of $2.2 million for the required semi-annual interest payment of the subordinated notes and a $2.6 million increase in customer deposits partially offset by other smaller items that net to a reduction of $0.6 million.

Cash used in investing activities of $1.5 million for the three months ended March 31, 2004, resulted from capital expenditures of $1.4 million and net purchases of long-term investments of $0.1 million.

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 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. The Company believes it will be able to meet its obligation to repay the outstanding $220 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 potentially liable for payment of earn-out features to the former owners of the businesses acquired in 2003 based on revenue targets achieved by the acquired businesses. The maximum amount of these contingent liabilities is $9 million to the former shareholders of Aii over a three-year period, $4 million to Nanodevices, Inc, over a three-year period and $20 million to Emcore Corporation, the former owner of TurboDisc, over a two-year period. Any amounts payable are to be paid during the first quarter of 2005, 2006 and 2007 to the former owners of Aii and to Nanodevices, respectively, and during the first quarter of 2005 and 2006 to Emcore. These payments are based on a set percentage of revenues in excess of certain targets for the preceding fiscal year and one payment based on Nanodevices achieving certain production targets. Therefore, it is not possible to calculate the amounts, if any, that may be due for each 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 104 No. 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, which generally occurs 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 March 31, 2004 and December 31, 2003, $2.5 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 March 31, 2004, we have deferred tax assets, net of valuation allowances, of $45.3 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 Disclosure About Market Risk.

Veeco s net sales to foreign customers represented approximately 66.1% of Veeco s total net sales for the three months ended March 31, 2004, and 61.8% for the comparable 2003 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 48.7% of Veeco s total net sales for the three months ended March 31, 2004, and 32.8% for the comparable 2003 period. The aggregate foreign currency exchange gain included in determining the consolidated results of operations was approximately $0.1 and $0.2 million, net of approximately $0.2 and ($0.2) million of hedging gains (losses) on forward exchange contracts, for the three months ended March 31, 2004 and 2003, respectively. Veeco is exposed to financial market risks, including changes in foreign currency exchange rates. The changes in currency exchange rates that have the largest impact on translating Veeco s international operating profit are the Japanese Yen and the Euro. To mitigate these risks, Veeco uses derivative financial instruments. Veeco does not use derivative financial instruments for speculative or trading purposes. The Company enters into monthly forward contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions and other known currency exposures. The average notional amount of such contracts was approximately $5.1 million for the three months ended March 31, 2004. As of March 31, 2004, the Company had entered into forward contracts for the month of April for the notional amount of approximately $20.7 million, which approximates the fair market value on March 31, 2004. Additionally, the Company has entered into a forward contract on March 18, 2004, in the notional amount of $0.5 million which approximates the fair market value on March 31, 2004. This contract will be settled on or about June 15, 2004.

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 significant changes in our internal controls or other factors that could significantly affect these controls after such evaluation.

Part II.

Item 6. Exhibits.

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 Referenceto the Following Document:
10.1		Seventh Amendment dated as of February 5, 2004 to the Credit Agreement, dated April 19, 2001 among Veeco Instruments Inc., Fleet National Bank, as administrative agent, JPMorgan Chase 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, 2003, Exhibit 10.8
10.2		Letter Agreement dated January 21, 2004 between the Company and John P. Kiernan.		Annual Report on Form 10-K for the Year Ended December 31, 2003, Exhibit 10.38
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

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* Filed herewith