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 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 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.

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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	March 31, 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

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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.

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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