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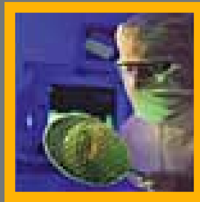
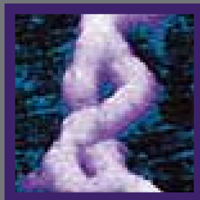




Growth Through Diversification

VEECO

Veeco

Annual Report

Corporate Profile: Veeco develops, manufactures, markets and services a broad line of process equipment and metrology tools primarily used by leading manufacturers of optical telecommunications, data storage and semiconductor components. These industries provide a wide range of information age technology and products—fiber optic networks that deliver streams of high speed information, wireless telecommunication, high density storage servers, internet appliances, and emerging new products such as personal digital assistants, digital cameras, and the convergence of TV, computer, fax, telephone and the internet. In effect, Veeco is a key "enabler" of many of the technologies that pervade our daily lives.

Our Process Equipment products precisely deposit (add) or remove (etch) critical materials in the manufacturing of advanced thin film magnetic heads for the data storage industry, as well as optical telecommunications passive and active devices such as thin film filters, lasers, transmitters and amplifiers. Veeco's Process Equipment also is used in specialty wireless semiconductor applications. Veeco's broad line of leading edge technology allows customers to improve time to market of next-generation products. Process Equipment products represented revenues of $216.3 million in 2000.

Our Metrology equipment provides critical 3D surface measurements of thin film magnetic heads, passive and active optical components, semiconductor devices and research applications. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality. Veeco's powerful combination of measurement and test technologies include atomic force microscopes, optical interferometers, stylus profilers, optical inspection systems and magnetic testing devices. Metrology products represented revenues of $159.8 million in 2000.

Veeco serves worldwide industry leaders including Seagate, IBM, Fujitsu, TDK, Agere Systems, JDS Uniphase, Headway Technologies, Read-Rite, Nortel Networks and ALPS. Our worldwide sales and service organization includes 300 field engineers located throughout North America, Europe, Japan, and Asia Pacific. Veeco enters 2001 with over 1,300 employees and has manufacturing, research and development and engineering facilities in Arizona, California, Colorado, Minnesota and New York.

Financial Highlights

(In thousands, except per share amount)	2000	1999	1998	1997	1996
			Year ended December 31,		
Statement of operations data:					
Net sales	**$386,668**	$329,521	$283,158	$285,998	$219,207
Operating income (excluding non-recurring charges)	**36,722(1)**	42,783(2)	30,007(3)	45,063(4)	37,481
Pro forma diluted earnings per share excluding non-recurring charges(5)	**$ 0.98**	$ 1.32	$ 0.93	$ 1.48	$ 1.29

(1) Excludes non-recurring charges of $33.3 million, relating to the mergers with CVC and Monarch.

(2) Excludes non-recurring charges of $7.6 million, related to $2.6 million of Ion Tech merger expenses, $2.5 million for loss on sale of leak detection business and $2.5 million for the write-off of in-process R&D.

(3) Excludes non-recurring charges of $8.2 million, including merger and reorganization expenses of $7.5 million in connection with the Digital merger and the write-off of deferred charges of $0.7 million.

(4) Excludes non-recurring merger expenses of $2.3 million in connection with the merger with Wyko and an in-process R&D write-off of approximately $4.2 million.

(5) Pro forma diluted earnings per share is calculated using a 35% tax rate and excludes the effects of non-recurring charges.

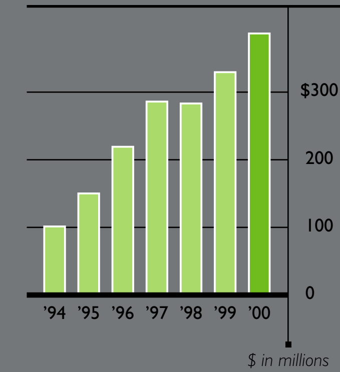
Veeco Product and Markets Matrix

(Approximate 2000 sales)

	Optical Telecommunications	Data Storage	Research/ Semi
Process Equipment **$216 million**	**$77m**	**$120m**	**$ 19m**
Ion Beam Deposition Physical Vapor Deposition Ion Beam Etch			
Metrology/Ind. Meas. **$171 million**	**$ 10m**	**$ 49m**	**$112m**
Atomic Force Microscopy Stylus Profilers Laser Interferometers Magnetic Test Defect Review X-Ray Fluorescence			
Total $387 million	**$87m**	**$169m**	**$131m**

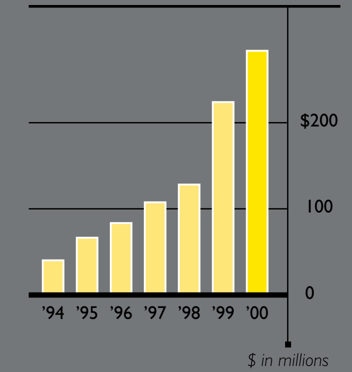
Financial Highlights

Sales



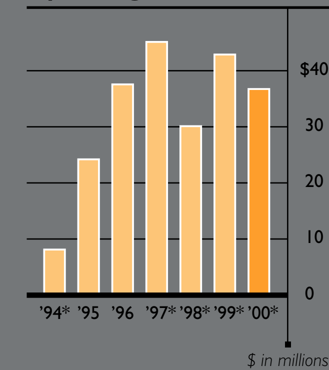
6 Year CAGR +25%

Shareholders' Equity



6 Year CAGR +39%

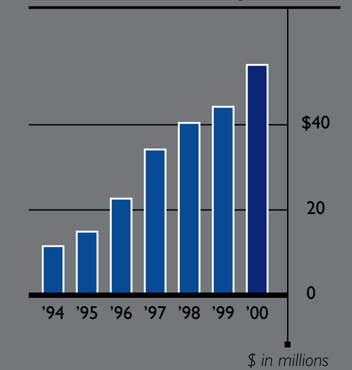
Operating Profit



6 Year CAGR +29%

* Exclusive of non-recurring charges

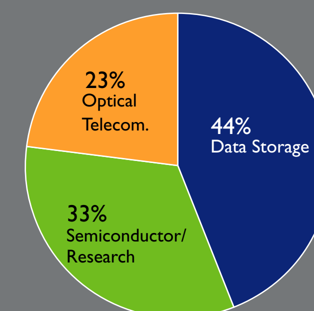
Research & Development



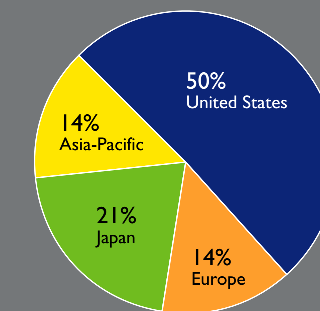
6 Year CAGR +29%

Veeco Sales Profile

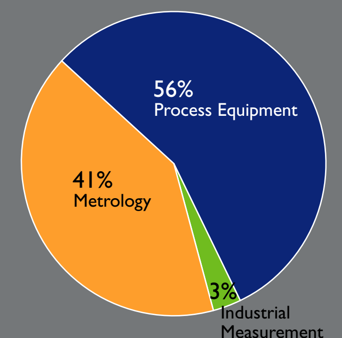
Sales by Market



Sales by Geographic Region

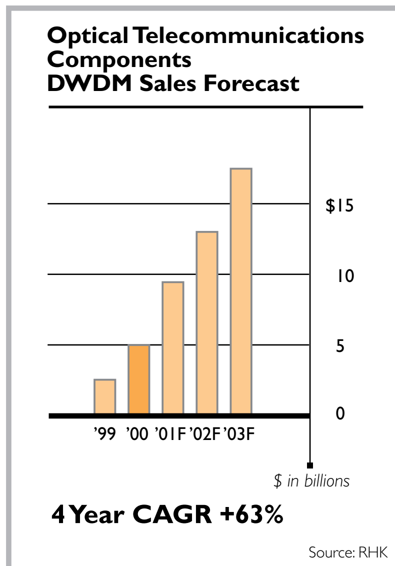


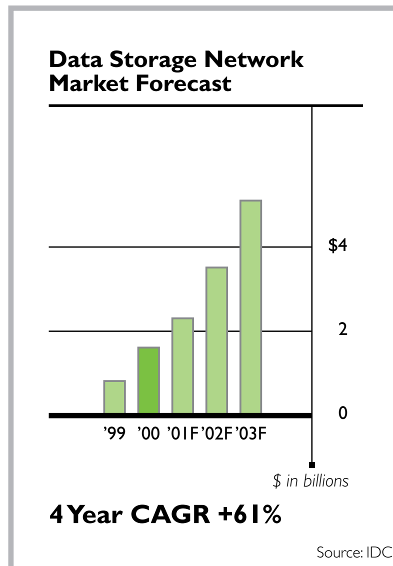
Sales by Product

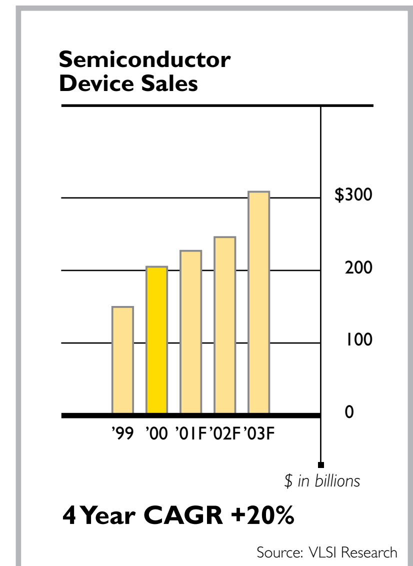


Compelling Opportunities in

Growing Markets







Veeco's strategy is focused on capitalizing on compelling opportunities in several growing markets—optical telecommunications, data storage and semiconductor/research. While each of these markets represents exciting, information age technology and multi-year growth is dramatic, quarter to quarter performance can reflect cyclicality. Veeco's strategy to provide equipment solutions to multiple markets has enabled us to balance our performance and produce steady growth—Veeco's compounded annual sales and operating profit have increased 25% and 29%, respectively, since our 1994 initial public offering. We believe that our successful diversification strategy will result in continued long-term growth for Veeco in the future, benefiting our employees, customers and shareholders.

Record Financial Results Veeco's continued growth strategy of pursuing technology advances for next-generation information age products resulted in strong revenue and bookings performance for the Company in 2000. Veeco reported record bookings for the year ended December 31, 2000 of $607 million, a 75% increase over the $348 million reported in the prior year. Veeco's Process Equipment bookings in 2000 were $396 million and Metrology bookings were $200 million.

Veeco reported record revenue of $387 million for the year ended December 31, 2000, a 17% increase over reported sales of $330 million in 1999. Excluding non-recurring charges, operating income in 2000 was $37 million, a decline of 14% from the $43 million reported in 1999. Pro forma fully diluted earnings per share was $0.98 compared with $1.32 in 1999 (exclusive of non-recurring charges and utilizing a 35% effective tax rate).

Some highlights of 2000 included record Ion Tech sales of $62 million, up over 200% from prior year and record sales of atomic force microscopy products of $98 million, up 36% over prior year. Sales of Veeco's optical interferometry/test metrology products, which included many newly introduced products, were a record $62 million, up 55% from prior year. Veeco's sales by geographic segment for 2000 were as follows: United States 50%, Asia Pacific 14%, Japan 21% and Europe 14%. Total Process Equipment revenues were a record $216 million and total Metrology revenues were a record $160 million. Veeco's book-to-bill ratio for 2000 was 1.57.

GROWTH THROUGH DIVERSIFICATION

Despite the strong sales and bookings results in 2000, Veeco's operating profit was lower than anticipated, primarily the result of integration issues associated with the merger with CVC. In hindsight, our plans to improve CVC's profitability post-merger were too optimistic, and it took us longer than originally anticipated to resize the organization properly in light of the challenging data storage marketplace and achieve the cost and operating synergies associated with the merger. As we begin 2001, we are pleased to report that the operational challenges that caused us to produce disappointing second and third quarter 2000 earnings have been addressed, and we are now well positioned to leverage our sales and improve profitability in 2001.

Veeco's success in 2000 is directly attributable to a continued operational and managerial focus on our growth strategy, which is to:

- Serve high-growth, often counter-cyclical information age markets—optical telecommunications, data storage, semiconductor/research;
- Broaden our product line of leading-edge Process Equipment and Metrology technologies serving these markets, focusing on those technologies where we have a competitive edge;
- Provide "total solutions" to our customers in order to penetrate major industry accounts, and be aligned to their strategic technology and product development roadmaps.

Acquisition Success Veeco integrated two significant acquisitions in 2000, Ion Tech Inc. and CVC. In addition, we extended our technology offerings through our mergers with Monarch Labs and OptiMag, the acquisition of critical atomic force microscopy technology from IBM, and our outsourcing agreement with Seagate.

Ion Tech: With the purchase of Ion Tech in November, 1999, Veeco became a leading supplier of process equipment to the burgeoning optical telecommunications market. Nine of our top twenty customers in 2000 were optical telecommunications industry leaders.

2000 was an excellent year for Veeco, including the integration of two significant acquisitions, the launch of Veeco into the optical equipment marketplace and record sales and bookings levels.

The Ion Tech merger was the most successful in Veeco's history, in that it resulted in unparalleled growth for Veeco in optical telecommunications. Ion Tech's sales tripled from $20 million in 1999 to $62 million, and bookings for 2000 were over $200 million. We attribute this success to Ion Tech's superior ion beam technology, and their agility in recognizing an unmet market need and developing a product, the SPECTOR®, ideally suited to the demand for thin film optical filters. By combining Ion Tech's optical industry know-how with Veeco's financial resources, worldwide marketing, service and operational strength, we were able to surpass the competition and provide the industry's best ion beam deposition system for thin film filters. Going forward, Veeco will ensure that next-generation SPECTORs are aligned with optical telecommunications customers' technology roadmaps—and be able to deliver advanced thin film filters of 100Ghz, 50Ghz and beyond.

CVC: Our merger with CVC in May, 2000, while accompanied by significant financial and operational challenges, is indeed an important strategic step for Veeco. Our merger with CVC solidified our position as a dominant data storage equipment company with the industry's largest installed base of 1,000 etch and deposition systems. Veeco and CVC combined have an unparalleled product portfolio, industry recognition and technology base. We have also had significant success in applying Veeco/CVC technologies to the active optical telecommunications marketplace.

Actions were taken on several fronts to ensure that CVC runs as a profitable division of Veeco. These included manufacturing consolidation, a restructuring of the CVC management, combining research and engineering operations and implementing new operating efficiencies and procedures. In January 2001 we also selected Kenneth Barry, formerly President and Chief Executive Officer of Materials Research Corporation (a division of Sony Electronics, Inc), as our new President of the combined New York Process Equipment operations. We firmly believe that the corrective actions implemented now position us well for a dramatically improved 2001.

AFM Technology: In 2000, Veeco purchased from International Business Machines certain assets related to their atomic force microscope (AFM) technology. Veeco has combined their technology into our own AFM product line. Our goal is to continue to be the world's leading supplier of AFM measurement equipment. In addition, we have expanded the capabilities of our current AFM semiconductor fab tool set for 200 and 300mm wafers, including the Dimension 9000 and Vx Series tools for etch metrology and measurement of chemical mechanical planarization (CMP). 2000 was an excellent year for our AFM business—which grew 36% from $72 million in 1999 to over $97 million in 2000. This strong growth was primarily the result of the adoption of our AFM tools by semiconductor manufacturers for sub-0.15 micron feature sizes and control of demanding CMP processes. AFMs also continue to be widely used in research applications, which is another steady area of growth. Veeco's installed base of AFMs exceeds 3000 systems.

New Markets and Opportunities As we commented at the beginning of this report, one of Veeco's greatest strengths is our multiple markets strategy, which has resulted in strong sales and operating profit growth since our IPO in 1994. We will continue to capitalize on this diversification strategy, and in particular will:

- Capitalize on the dynamic growth in optical telecommunications industry by expanding process equipment and metrology solutions;
- Strengthen our position as a leading "one-stop shop" for etch, deposition and metrology equipment for the data storage industry;
- Pursue focused market opportunities in the semiconductor industry in which Veeco has specific AFM technology leadership;
- Leverage our technology and strategic customer relationships and assist our customers' time to market for their new products;
- Utilize our industry-leading global sales and support network to further strengthen customer relationships; and
- Pursue selective strategic mergers, acquisitions and internal product development to further expand our product line offerings in Process Equipment and Metrology.

Our Future As we begin 2001, we see enormous promise for Veeco's future. Today Veeco has the strongest product portfolio in the history of our company. We will continue to evaluate strategic technology acquisitions to further our penetration of our core markets.

Our greatest focus for 2001 and beyond is to execute our strategic plan and maximize Veeco's financial and operational performance. During the latter part of 2000 and in early 2001, we dramatically strengthened our senior management team through the additions of key operational, marketing, engineering and process development talent. In February 2001 we announced the creation of a new management structure, appointing four Group Presidents—Ken Barry, Emmanuel Lakios, Robert Valentine and Don Kania, Ph.D. Ken Barry joined Veeco in February as President, Process Equipment (Plainview and Rochester); Manny Lakios, who has been with Veeco since 1984 in many significant roles, was promoted to President, Worldwide Field Sales and Support; Robert Valentine, who joined us last October and had prior experience from Hewlett-Packard, Schlumberger and Borg Warner, was promoted to President of Ion Tech; and Don Kania, Ph.D., who joined Veeco in 1997 as our Chief Technology Officer and has also managed our Santa Barbara atomic force microscopy operations, serves as President of the Metrology group. This structure provides the depth of management and focus required to achieve our goal of $1 billion in annual revenues in the next four years.

Going forward, we expect continued optical telecommunications growth—extending our product line for active and passive devices and introducing our new Optium™ family of metrology systems. We currently forecast that optical telecommunications revenues will represent half of our business in 2001. Despite the semiconductor industry's current cyclical downturn, we expect continued growth in our AFM business due to the technology transition to sub-micron geometries. The data storage industry appears to have stabilized after a long downturn cycle and is currently investing in high areal density thin film heads associated with internet storage applications. Although the overall economic and business climate is currently unclear, Veeco's diversification strategy should serve us well in the coming year by enabling us to capitalize on growth opportunities and minimize the risk associated with any one industry.

We want to thank our employees, customers and shareholders for their continued support and for their contributions to Veeco's success in 2000. We reaffirm our commitment to growth and expansion in 2001 and beyond.

Sincerely,

Edward H. Braun
Chairman, CEO and President

March 30, 2001

Optical Telecommunications Market

Optical telecommunications tied to fiber optic networks enable the transmission of increased streams of information (voice and data) to our offices and homes at the speed of light. Today, the deployment of dense wavelength division multiplexing (DWDM) solutions is increasing the demand for optical components. Active and passive components are the fastest growing portions of the telecommunications market—industry sources estimate that the overall size of the optical component market will grow from $5 billion in 2000 to $24 billion in 2004. The driver of all this growth? *An insatiable demand for increasing bandwidth.*

Veeco is the only supplier of both process equipment and metrology solutions for this rapidly expanding market—we are a key "enabler" of telecommunications components. Veeco's 2000 total revenues from this market were approximately $87 million, and bookings were well in excess of $200 million. It is our intention to continue to broaden our product line, thus becoming a "one-stop shop" for process equipment and metrology solutions for this industry.

Process Equipment In 2000, Veeco became a leading supplier of enabling process equipment to the optical telecommunications industry. This was accomplished through our merger with Ion Tech which develops and manufactures SPECTOR ion beam deposition systems used to make precise thin film optical filters (a critical passive component). When Veeco merged with Ion Tech in November 1999, it had sales of $20 million. In 2000, Ion Tech's revenues tripled to $62 million, and bookings were $207 million. Ion Tech's SPECTOR is the industry standard for the manufacture of DWDM filters due to its precise deposition rates, unsurpassed uniformity, and ability to create films with superior optical properties. Ion Tech's leading technology, when combined with Veeco's strength in worldwide support and service and added financial and operational resources, resulted in unparalleled growth for Veeco in this new market. Responding to this demand was a significant operational challenge for Veeco, and we successfully ramped capacity for Ion Tech by doubling their Colorado facility and staff, and utilizing manufacturing space in New York. As a result, by this June we will have more than tripled our total SPECTOR production capacity in less than a year's time.

SPECTOR Ion Beam Deposition System For Thin Film Filters

NEXUS™ Ion Beam Etching System For Active Telecommunications Devices

Optium Automated Filter Test and Sort System

In addition, Veeco's May, 2000 merger with CVC strengthened our Process Equipment product portfolio and enabled us to introduce our NEXUS family of physical vapor deposition (PVD), ion beam etch (IBE), ion beam deposition (IBD), and E-Beam systems to this marketplace. Veeco's Process Equipment provides a versatile platform on which to build active optical components such as pump and source lasers, modulators, amplifiers and many others. Our New York operations have made tremendous strides in developing products for this market, evidenced by orders of approximately $20 million in 2000 for these active optical applications.

Metrology Veeco has introduced a new family of Metrology tools, Optium, for process control and yield management for optical telecommunications component manufacturing. As in other information-age sectors, Veeco has focused our core competencies on yield improvement and in-line monitoring, providing manufacturers with a comprehensive set of metrology systems. These tools complement our process equipment, allowing Veeco to offer the most integrated tool set for fast production ramp and high-yield manufacturing.

The Optium family includes surface measurement and defect review systems, as well as new wavelength characterization tools with automatic bin and sort capability. This extended metrology capability helps control key processing steps for passive and active DWDM components, including laser diodes, DWDM filters, mirror arrays, lenses and optical fibers. Veeco's long history as a critical metrology supplier to the data storage, semiconductor and research industries makes us uniquely positioned to capitalize on this emerging growth market.

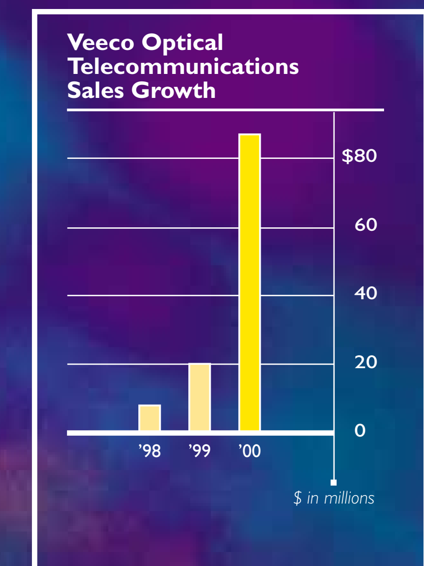
DYNAMIC GROWTH OPPORTUNITY

Increased Demand For Bandwidth Generates 230% Veeco Sales Growth.

Increasing Bandwidth Using DWDM Filters

FREQUENCY BANDWIDTH	NUMBER OF CHANNELS
400 GHz	8
200 GHz	16
100 GHz	32
50 GHz	64

Advanced Thin Film Filters Require Increased Use of High-Precision Ion Beam Deposition



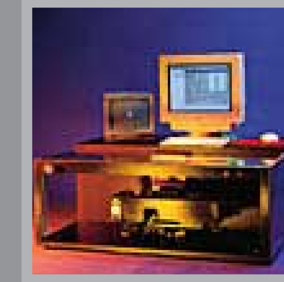
Data Storage Market

Increased use of the internet drives data storage growth associated with network servers and e-commerce solutions. The industry's areal densities continue to grow at 100% per year, requiring new thin film magnetic head (TFMH) process equipment for next-generation 100 Gb/in² applications. In fact, Veeco is the leader in creating advanced giant magnetoresistive (GMR) thin film magnetic head solutions. TFMHs are critical components of network servers, PCs and other new consumer products that require data storage (digital cameras, TV set-top boxes, etc.). Veeco sells to every major manufacturer of TFMHs around the world—IBM, Seagate, TDK, Alps, Read-Rite, Fujitsu, SAE, Toshiba and SONY.

Our merger with CVC was completed in May 2000 and created a data storage industry leader with the largest installed base of over 1,000 etch and deposition systems, largest research and development effort, broadest breadth of technologies, and significant worldwide reach. Veeco established manufacturing "Centers of Excellence" to focus on ion beam deposition (IBD), physical vapor deposition (PVD), ion beam etch (IBE), MOCVD and Diamond-like carbon (DLC) technologies. We launched the product name "NEXUS" which means to "link"—to signify the convergence of the best of process equipment technologies from Veeco and CVC. Customers responded positively to their ability to mix and match Veeco and CVC modules to both maximize the productivity of their installed base and to order new combinations of advanced PVD, IBD and IBE equipment. We continue to be aligned with customers' product development roadmaps in order to deliver next-generation process equipment and metrology solutions. Sales of Veeco's Process Equipment and Metrology systems to the data storage industry in 2000 were approximately $169 million. While this represents a decrease versus the prior year due primarily to overall data storage industry capital spending constraints, the CVC merger makes Veeco ideally positioned to capitalize on future industry investments in capital equipment and the continued transition to advanced TFMH technology.

Process Equipment Veeco's NEXUS IBE is the industry standard for milling of air bearing surfaces for precise fly-height control as well as pole tip definition and width control—critical to the manufacture of thin film magnetic heads. Our NEXUS IBD and PVD systems deposit defect-free, highly uniform films with strict control of magnetic and dielectric properties. And NEXUS DLC systems provide hard protective coatings and reduce electrostatic damage, thereby improving the head's reliability. In 2000, Veeco took orders totaling approximately $13 million from leading data storage manufacturers for 10-target integrated cluster tools with ultra-high vacuum to be used in the development of advanced GMR heads. These tools, which were created with the combined technologies of Veeco and CVC, enable head manufacturers to run entire processes without ever breaking vacuum. With continued increases in areal densities planned, all leading head manufacturers will need to transition to this advanced tool.

NEXUS PVD 10-Target Tool For 100 Gb/in² Thin Film Heads

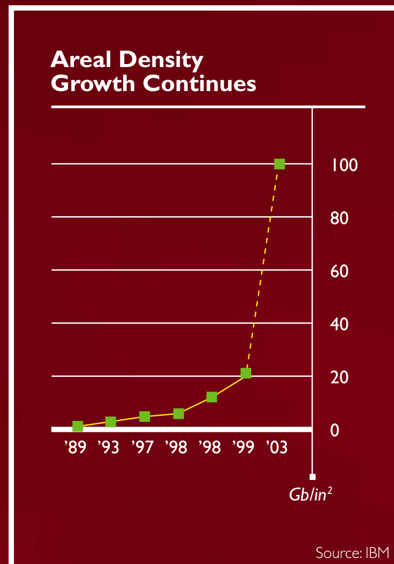


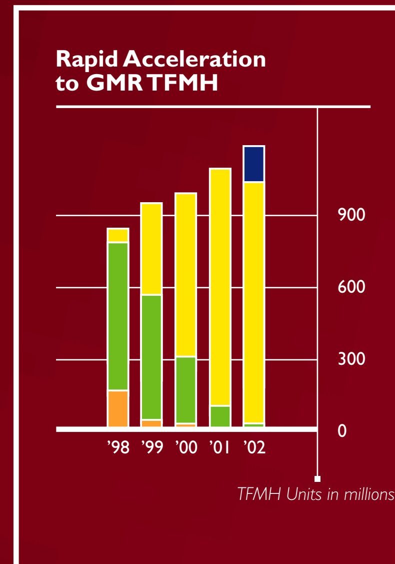
Wyko SATIS SARPA Automated Pitch and Roll Adjustment System For Thin Film Heads

Veeco Slider Curvature Adjust (SCA) System For Thin Film Heads

Metrology In addition to Process Equipment, Veeco's metrology systems help data storage manufacturers increase their manufacturing yields through in-line and process inspection. On the production line, our in-line inspection systems allow manufacturers to increase yields, and reduce time to ramp production, often achieving payback in just a few months. In development, our wide range of technologies enable early understanding of new processes. We broadened our product offerings to the data storage industry with the addition of defect review systems and magnetic measurement tools. We also completed a strategic alliance with Seagate Technology, our largest customer, to outsource their Slider Curvature Adjust technology (SCA), which micro-machines thin film magnetic heads while providing real-time process feedback using in-situ metrology for critical fly-height control.

ONE-STOP EQUIPMENT & METROLOGY LEADER





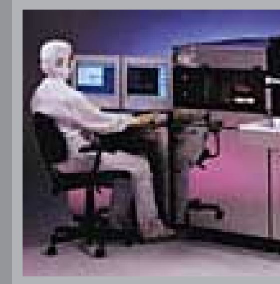
TMR GMR MR Inductive

Increased Use Of The Internet Drives Data Storage Growth Associated With Network Servers And E-Commerce Solutions.

Semiconductor & Research Market

Semiconductor industry device growth continues to be tied to increased chip performance, reduced cost, and reduced size (faster, cheaper, smaller). Next-generation semiconductor devices require technology investment to control critical wafer fab process steps such as sub-0.15 micron feature sizes, critical etch and lithography steps, chemical mechanical planarization (CMP) and the introduction of 300 mm wafers. Next-generation semiconductor processes will require atomic and molecular scale precision. Veeco's high resolution atomic force microscopes, such as our new Dimension™ Vx Atomic Force Profilers (AFP) have the ability to meet and exceed the needs of next-generation CMP and sub-0.15 micron processes. In 2000, Veeco broadened our atomic force technology and intellectual property by purchasing assets of International Business Machine's atomic force microscope product line. Our goal is to continue to be the world's leading supplier of AFM measurement equipment.

During 2000, Veeco's sales to the semiconductor marketplace were driven primarily by sales of our family of automated semiconductor tools. Semiconductor manufacturers are rapidly adopting the Vx Atomic Force Profiler (AFP) and the Dimension™ 9000 Atomic Force Microscope as their tools of choice for sub-0.15 micron feature sizes and control of demanding CMP processes. Both metrology tools are 300mm capable, and Veeco's atomic force metrology is the only technology that enables manufacturers to measure and visualize 0.10 micron processes and below. Many of our orders during 2000 were for 300mm wafer production programs. Leading international semiconductor manufacturers have recognized the superior technology, productivity and cost savings of our fab tools. In May, Veeco announced that its AFP had won a comprehensive competitive evaluation, and was designated "tool of choice" for etch depth and CMP measurement by a leading international semiconductor manufacturer. This system was specifically designed for in-line measurement of high aspect ratio features and measurement of dishing and erosion on post-CMP structures in 300mm fabs. In 2000, Veeco also received multiple orders for Dektak® OSP Stylus Profilers designed for the flat panel display industry as well as for our Dektak Series V Surface Profilers which monitor etch and deposition uniformity thickness on 200mm and 300mm wafers.


Dimension Vx Atomic Force Profiler For CMP Measurement

Dimension 9000 Atomic Force Microscope For Sub-Micron Trench Measurements

Dimension 3100 Atomic Force Microscope For Feature Characterization

Research Veeco has a strong history of providing optical interferometry and AFM metrology solutions to research and scientific markets including materials science, MEMS, and biotechnology. Veeco provides the metrology tools that scientists and researchers need to make new discoveries. In materials, polymers, nanotechnology, biology, chemistry and many other fields of research, AFMs enable the measurement and visualization of surfaces and structures at the atomic level. Veeco's Wyko optical interferometers enable the three dimensional measurement of surface conditions for telecommunications, semiconductor lithography, aerospace and laser applications.

Veeco provides the widest range of 3D metrology technologies in the world. In addition to AFM and optical techniques, Veeco offers magnetic measurement, defect inspection and stylus profiling. Magnetic force microscopy allows profiling of magnetic fields in the nano-level. Stylus profiling provides quick, cost-effective measurement. Together, these techniques give the researcher more ways to get the data they need. At the end of 2000 Veeco introduced the Nanoscope® IV, a next-generation scanning probe controller for a wide range of R&D applications.

CAPITALIZING ON EMERGING TECHNOLOGIES

Veeco Is The World-Leading AFM Supplier For Next-Generation Semiconductor Processes.

Emerging Semiconductor Technologies:

- 300mm Wafers
- Chemical Mechanical Polishing (CMP)
- Sub 0.15 Micron
- MEMS
- Non-Volatile MRAM
- Bio-Molecular Devices

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Selected Historical Consolidated Financial Data

(In thousands, except per share data)

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Statement of Operations Data [1],[2]:					
Net sales	$386,668	$329,521	$283,158	$285,998	$219,207
Cost of sales	227,838[3]	176,152	157,460	154,773	120,079
Gross profit	158,830	153,369	125,698	131,225	99,128
Costs and expenses	137,430	110,586	95,691	86,162	61,647
Merger and reorganization expenses	14,206[3]	2,600[4]	7,500[4]	2,250[4]	—
Loss on sale of leak detection business	—	2,500	—	—	—
Write-off of purchased in-process technology	—	2,474	—	4,200	—
Write-off of deferred charges	—	—	675	—	—
Asset impairment charge	3,722[3]	—	—	—	—
Operating income	3,472	35,209	21,832	38,613	37,481
Interest (income) expense, net	(1,307)	(695)	2,185	715	(39)
Income before income taxes and cumulative effect of change in accounting principle	4,779	35,904	19,647	37,898	37,520
Income tax provision	4,277	13,923	6,010	9,237	7,067
Net income before cumulative effect of change in accounting principle	502	21,981	13,637	28,661	30,453
Cumulative effect of change in accounting principle, net of income taxes [5]	18,382	—	—	—	—
Net (loss) income	$(17,880)	$ 21,981[6]	$ 13,637[6]	$ 28,661	$ 30,453
Earnings per share:					
Net income per common share before cumulative effect of change in accounting principle	$ 0.02	$ 1.07	$ 0.73	$ 1.56	$ 1.67
Cumulative effect of change in accounting principle	$ (0.77)	—	—	—	—
Net income per common share	$ (0.75)	$ 1.07[6]	$ 0.73[6]	$ 1.56	$ 1.67
Diluted net income per common share before cumulative effect of change in accounting principle	$ 0.02	$ 1.02	$ 0.70	$ 1.48	$ 1.61
Cumulative effect of change in accounting principle	$ (0.73)	—	—	—	—
Diluted net (loss) income per common share	$ (0.71)	$ 1.02[6]	$ 0.70[6]	$ 1.48	$ 1.61
Pro forma Income Tax Presentation [7]:					
Income before income taxes	N/A	N/A	$ 19,647	$ 37,898	$ 37,520
Pro forma income tax provision	N/A	N/A	7,464	14,444	13,089
Pro forma net income	N/A	N/A	$ 12,183	$ 23,454	$ 24,431
Pro forma net income per common share	N/A	N/A	$ 0.65	$ 1.27	$ 1.34
Pro forma diluted net income per common share	N/A	N/A	$ 0.63	$ 1.21	$ 1.29
Weighted average shares outstanding	23,805	20,604	18,775	18,430	18,276
Diluted weighted average shares outstanding	25,128	21,461	19,436	19,424	18,972

(see notes on following page)

	As of December 31,				
	2000	1999	1998	1997	1996
Balance Sheet Data [1], [2]:					
Cash, cash equivalents and short-term investments	**$ 90,315**	$ 80,740	$ 23,599	$ 22,986	$27,370
Working capital	**220,463**	171,977	97,977	79,742	71,846
Total assets	**423,283**	341,196	221,995	209,784	149,834
Long-term debt (including current installments)	**16,062**	38,704	35,865	26,971	18,536
Shareholders' equity	**282,908**	223,944	127,719	107,575	82,844

(1) Prior to the merger with Veeco, CVC's fiscal year end was September 30. Therefore the Statement of Operations Data for all years presented through 1999 were derived from CVC's financial statements for the respective twelve months ended September 30. In addition, the Balance Sheet Data through 1999 was derived from CVC's September 30 balance sheets.

(2) Prior to the merger with Veeco, Ion Tech's fiscal year end was June 30. In connection with the merger, the financial results of Ion Tech were recast for 1998 to conform to Veeco's December 31 year end. For the year ended 1997, historical results include Ion Tech's fiscal year ended June 30, 1998 results, thus resulting in six months of 1998 activity included in the 1997 results of operations.

(3) Veeco incurred non-recurring charges of $33.3 million during the year ended December 31, 2000, of which $33.0 million related to the merger with CVC. Of these charges, a $15.3 million non-cash charge related to a write-off of inventory (included in cost of sales), $14.0 million represented merger and reorganization costs (of which $9.2 million related to investment banking, legal and other one-time transaction costs and $4.8 million pertained to duplicate facility and personnel costs) and $3.7 million was for the write-off of long-lived assets. See Note 2 to the Consolidated Financial Statements.

(4) During 1999, the Company recorded charges of $2.6 million related to merger expenses in connection with the merger with Ion Tech. In 1998, the Company recorded merger and reorganization expenses of $7.5 million related to the merger with Digital. During 1997, the Company incurred $2.3 million of merger expenses in conjunction with the merger with Wyko.

(5) Effective January 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with SAB 101.

(6) The Company adopted SAB 101 effective January 1, 2000. Had this adoption taken place on January 1, 1998, net income, net income per common share and diluted net income per common share on a pro forma basis would have been as follows:

	1999	1998
Net income	$13,695	$12,682
Net income per common share	$ 0.66	$ 0.68
Diluted net income per common share	$ 0.64	$ 0.65

(7) Pro forma net income and pro forma earnings per share present income taxes as if Digital, which was merged with the Company in May 1998 in a transaction accounted for as a pooling of interests, had been a "C" corporation for all periods presented and, therefore, subject to federal income taxes at the corporate level. Prior to the merger, Digital had elected "S" corporation status for income tax purposes and, therefore, was not subject to federal income taxes.

Quarterly Statements of Operations

The following table presents selected financial data for each quarter of fiscal 2000 and 1999. Although unaudited, this information has been prepared on a basis consistent with the Company's audited financial statements and, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of this information in accordance with generally accepted accounting principles. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited financial statements of the Company and the notes thereto.

(in thousands)	Fiscal 2000					Fiscal 1999				
	Q1[1]	Q2[1]	Q3[1]	Q4	Year	Q1[2]	Q2[2]	Q3[2]	Q4	Year
Net sales	$ 86,831	$102,324	$81,146	$116,367	$386,668	$74,539	$77,092	$86,973	$90,917	$329,521
Cost of sales	46,463	73,329	43,805	64,241	227,838	39,573	40,808	47,413	48,358	176,152
Gross profit	40,368	28,995	37,341	52,126	158,830	34,966	36,284	39,560	42,559	153,369
Costs and expenses	30,962	34,258	34,955	37,255	137,430	24,868	24,435	28,314	32,969	110,586
Merger and reorganization expenses	250	13,956	—	—	14,206	—	—	—	2,600	2,600
Loss on sale of leak detection business	—	—	—	—	—	—	—	—	2,500	2,500
Write-off of purchased in-process technology	—	—	—	—	—	—	—	1,174	1,300	2,474
Asset impairment charge	—	3,722	—	—	3,722	—	—	—	—	—
Operating income (loss)	9,156	(22,941)	2,386	14,871	3,472	10,098	11,849	10,072	3,190	35,209
Interest (income) expense	(385)	(136)	(407)	(379)	(1,307)	175	(236)	(138)	(496)	(695)
Income (loss) before income taxes and cumulative effect of change in accounting principle	9,541	(22,805)	2,793	15,250	4,779	9,923	12,085	10,210	3,686	35,904
Income tax provision	3,593	(8,779)	(392)	9,855	4,277	3,757	4,432	3,967	1,767	13,923
Net income (loss) before cumulative effect of change in accounting principle	5,948	(14,026)	3,185	5,395	502	6,166	7,653	6,243	1,919	21,981
Cumulative effect of change in accounting principle, net of taxes	18,382	—	—	—	18,382	—	—	—	—	—
Net income (loss)	$(12,434)	$(14,026)	$ 3,185	$ 5,395	$(17,880)	$ 6,166	$ 7,653	$ 6,243	$ 1,919	$ 21,981
Earnings per Share:										
Net income (loss) per common share before cumulative effect of change in accounting principle	$ 0.26	$ (0.60)	$ 0.13	$ 0.22	$ 0.02	$ 0.31	$ 0.37	$ 0.30	$ 0.09	$ 1.07
Cumulative effect of change in accounting principle	(0.80)	—	—	—	(0.77)	—	—	—	—	—
Net (loss) income per common share	$ (0.54)	$ (0.60)	$ 0.13	$ 0.22	$ (0.75)	$ 0.31	$ 0.37	$ 0.30	$ 0.09	$ 1.07
Diluted net income (loss) per common share before cumulative effect of change in accounting principle	$ 0.24	$ (0.60)	$ 0.12	$ 0.21	$ 0.02	$ 0.30	$ 0.36	$ 0.29	$ 0.09	$ 1.02
Cumulative effect of change in accounting principle	(0.74)	—	—	—	(0.73)	—	—	—	—	—
Diluted net (loss) income per common share	$ (0.50)	$ (0.60)	$ 0.12	$ 0.21	$ (0.71)	$ 0.30	$ 0.36	$ 0.29	$ 0.09	$ 1.02
Weighted average shares outstanding	22,950	23,463	24,098	24,604	23,805	19,794	20,530	20,874	21,211	20,604
Diluted weighted average shares outstanding	24,747	23,463	25,561	25,410	25,128	20,668	21,186	21,499	22,368	21,461

(1) Effective January 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin No. 101 (SAB 101). As a result, the quarterly information for the first three quarters of 2000 noted above has been restated from that previously filed on the Quarterly Reports on Form 10Q. In addition, the restatement for the quarter ended March 31, 2000 also includes the effects of the merger with CVC in May 2000. The adoption of SAB 101 and the merger with CVC had the effect of increasing net sales by $35.4 million for the first quarter of 2000. Net income for the first quarter of 2000 decreased by $14.8 million, and basic and diluted earnings per share decreased by $0.67 and $0.63, respectively. The adoption of SAB 101 had the effect of increasing net sales and decreasing the net loss for the second quarter of 2000 by $8.7 million and $1.2 million, respectively, and basic and diluted earnings per share increased by $0.05. The adoption of SAB 101 had the effect of decreasing net sales and net income for the third quarter of 2000 by $11.8 million and $3.0 million, respectively, and basic and diluted earnings per share by $0.13 and $0.12, respectively.

(2) Restated from previously filed Quarterly Report on Form 10Q due to the CVC merger.

A variety of factors influence the level of the Company's net sales in a particular quarter including economic conditions in the semiconductor, data storage and optical telecommunications industries; the timing of significant orders; shipment delays; specific feature requests by customers; the introduction of new products by the Company and its competitors; production and quality problems; changes in material costs; disruption in sources of supply; seasonal patterns of capital spending by customers; and other factors, many of which are beyond the Company's control. In addition, the Company derives a substantial portion of its revenues from the sale of products which have an average selling price in excess of $750,000. As a result, the timing of recognition of revenue from a single transaction could have a significant impact on the Company's net sales and operating results in any given quarter.

Overview

Veeco is a leader in the development, manufacture, marketing and servicing of a broad line of precision metrology and process equipment used to measure, test and manufacture microelectronic products for the data storage, semiconductor and optical telecommunications markets. Process equipment is primarily used to etch and deposit materials in the manufacture of TFMHs and optical active and passive devices that greatly expand the bandwidth (capacity) of existing fiber optic networks. Metrology equipment is primarily used to measure critical dimensions of optical and semiconductor devices, as well as TFMHs.

During the past several years, Veeco has strengthened both the process equipment product line and the metrology product line with strategic acquisitions. Veeco's consolidated financial condition and results of operations have been restated to reflect the mergers with CVC, Ion Tech and Digital, as they have been accounted for as pooling of interests.

Results of Operations

The following table sets forth, for the periods indicated, the relationship (in percentages) of selected items of Veeco's consolidated Statements of Operations to its total net sales:

	Year ended December 31,		
	2000	1999	1998
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**58.9**	53.5	55.6
Gross profit	**41.1**	46.5	44.4
Operating expenses:			
Research and development	**13.9**	13.4	14.3
Selling, general and administrative	**20.4**	20.0	19.8
Amortization expense	**1.0**	0.1	0.1
Other expense (income), net	**0.2**	0.0	(0.4)
Merger and reorganization expenses	**3.7**	0.8	2.7
Loss on sale of leak detection business	**—**	0.8	—
Write-off of purchased in-process technology	**—**	0.7	—
Write-off of deferred charges	**—**	—	0.2
Asset impairment charge	**1.0**	—	—
Total operating expenses	**40.2**	35.8	36.7
Operating income	**0.9**	10.7	7.7
Interest expense	**0.6**	0.9	1.0
Interest income	**(0.9)**	(1.1)	(0.2)
Income before income taxes and cumulative effect of change in accounting principle	**1.2**	10.9	6.9
Income tax provision	**1.1**	4.2	2.1
Net income before cumulative effect of change in accounting principle	**0.1**	6.7	4.8
Cumulative effect of change in accounting principle, net of income taxes	**4.8**	—	—
Net (loss) income	**(4.7%)**	6.7%	4.8%

Years Ended December 31, 2000 and 1999

Net sales were $386.7 million for the year ended December 31, 2000, representing an increase of $57.1 million, or 17.3%, when compared to the year ended December 31, 1999. Sales in the U.S., Europe, Japan and Asia Pacific, respectively, accounted for 50.4%, 14.3%, 20.9% and 14.2% of the Company's net sales for the year ended December 31, 2000. Sales in the U.S. increased by approximately $43.1 million, or 28.4%, from 1999. The increase in U.S. sales is principally associated with a $34.6 million increase in process equipment sales of Ion Tech to the optical telecommunications industry. European sales decreased by $5.9 million, or 9.6%, when compared to the prior year. Sales in Japan and Asia Pacific increased by $6.6 million, or 8.9%, and $16.0 million, or 41.3%, respectively, over the comparable 1999 period. The increase in sales in Japan principally reflects increased sales of AFM products, while Asia Pacific's increase is primarily due to the February 2000 purchase of the slider crown adjust product line. The Company believes that there will continue to be quarter-to-quarter variations in the geographic concentration of sales.

Process equipment sales of $216.3 million for the year ended December 31, 2000, increased by $16.0 million, or 8.0%, due to a $41.8 million, or 205%, increase in sales, principally to the optical telecommunications industry, partially offset by a decline in sales to data storage customers. Metrology sales of $159.8 million for the year ended December 31, 2000 increased by $47.7

million, or 42.5%, from the comparable 1999 period, reflecting a 54.6% increase in optical metrology products from the newly acquired metrology businesses of OptiMag, Monarch and the slider crown adjust product lines, as well as a 35.7% increase in the sale of AFMs. Industrial measurement sales for the year ended December 31, 2000, of $10.6 million decreased 38.2% from the comparable 1999 period principally due to the sale on January 17, 2000 of the Company's leak detection business.

Veeco received $607.3 million of orders for the year ended December 31, 2000, representing a 74.7% increase from $347.7 million of orders in the comparable 1999 period. Process equipment orders increased 79.0% to $396.4 million primarily due to strong orders for Ion Tech's SPECTOR related equipment, principally to the optical telecommunications industry, which reflected increased orders of 456.6%, or $169.4 million, over the comparable 1999 period. Metrology orders increased 79.1% to $200.4 million, reflecting a 74.9% increase in orders for AFMs as well as an 87.6% increase in orders for optical metrology products from the newly acquired metrology businesses of OptiMag, Monarch and the slider crown adjust product lines. Industrial measurement orders decreased 26.9% to $10.5 million, principally due to the sale on January 17, 2000 of the Company's leak detection business. The book-to-bill ratio for the year ended December 31, 2000 was 1.57 to 1.

In connection with the merger with CVC, the Company incurred non-recurring charges of $33.0 million during 2000, of which a $15.3 million non-cash charge, or 4.0% of net sales, related to the write off of inventory, which has been included in cost of sales. Gross profit for the year ended December 31, 2000 decreased to 41.1% from 46.5% in 1999. Excluding the non-recurring charges, gross profit as a percentage of net sales decreased to 45.0%, due primarily to a 5.7% decline in data storage process equipment gross margins from 1999 levels due to the volume decline, as well as price and cost pressures. Metrology gross margin decreased to 53.7% in 2000, compared to 56.0% in 1999, due primarily to new product transition in optical metrology, primarily at the Company's Minneapolis site, which produces the slider crown adjust product line.

Research and development expense for the year ended December 31, 2000 of $53.9 million, increased by $9.7 million, or 22.0%, over the comparable period of 1999, due primarily to the continued investment in new products and technology for both the process equipment and metrology businesses as well as investment with respect to acquired businesses which did not have comparable spending in 1999.

Selling, general and administrative expenses of $78.9 million for the year ended December 31, 2000 increased $13.1 million or 19.8%, over the comparable period of 1999. As a percentage of sales, selling, general and administrative expenses represent 20.4% for the year ended December 31, 2000, compared to 20.0% for the year ended December 31, 1999. The 2000 increase is attributable to the expansion of direct sales and service presence in both Japan and the Asia Pacific regions, as well as the purchase of Commonwealth, OptiMag and the slider crown adjust product lines, which had lower comparable operating spending in 1999 since these acquisitions were accounted for using the purchase method of accounting.

Amortization expense for the year ended December 31, 2000 of $3.7 million, increased by $3.3 million or 680% over the comparable period of 1999, due to the addition of intangible assets of businesses purchased in 1999 and 2000, including OptiMag, slider crown adjust product line and the atomic force microscope product line.

As previously noted, during 2000, Veeco incurred non-recurring charges of $33.0 million in conjunction with the merger with CVC. Of these charges, a $15.3 million non-cash charge related to a write-off of inventory (included in cost of sales), $14.0 million represented merger and reorganization costs (of which $9.2 million related to investment banking, legal and other one-time transaction costs, and $4.8 million pertained to duplicate facility and personnel costs) and $3.7 million was for the write-down of long-lived assets. The Company implemented a reorganization plan in an effort to integrate CVC into the Company, consolidate duplicate manufacturing facilities and reduce other operating costs. The $4.8 million charge for duplicate facility and personnel costs principally related to the closing of the CVC Virginia facilities and an approximate 200-person work force reduction, which included both management and manufacturing employees. During the year, the entire accrual of $14.0 million for merger and reorganization costs was expended. The write-down of long-lived assets to estimated net realizable value related primarily to leasehold improvements, machinery and equipment and intangible assets for CVC's Virginia facilities. In addition, the $15.3 million non-cash write-off of inventory principally related to CVC's Virginia facilities product line of ion beam etch and deposition equipment. The Company has integrated the technology from this product line into Veeco's existing ion beam etch and deposition products. Accordingly, the Company has determined that a portion of this product line's inventory is not useable in the future.

During 1999, the Company recorded charges of $2.6 million and $2.5 million before taxes related to the merger with Ion Tech and the sale of the leak detection business, respectively. In conjunction with the OptiMag acquisition, the Company recorded a $1.3 million write-off of the fair values of acquired in-process research and development ("R&D") projects that had not reached technological feasibility and had no alternative uses. On the date of acquisition, OptiMag's in-process R&D value was comprised of the Oasis version 1.0 hardware and software component development program that was completed in 2000. In conjunction with CVC's acquisition of Commonwealth Scientific Corporation, CVC recorded a $1.2 million charge for the write-off of acquired in-process research and development costs, including products in the development stage that had not reached technological feasibility and for which there is no alternative future use. Due to the merger of Veeco and CVC, the Company implemented a

reorganization plan, which included the closing of CVC's Virginia facilities. Due to this restructuring, the in-process R&D program has been abandoned by the Company. During 2000, approximately $608,000 has been spent on this program.

Income taxes for the year ended December 31, 2000 amounted to $4.3 million, or 89.5%, of income before income taxes and cumulative effect of change in accounting principle, as compared with $13.9 million, or 38.8%, of income before income taxes in 1999. The higher effective tax rate for 2000 is due to approximately $10.0 million of non-deductible charges related to the $33.0 million merger and reorganization charges incurred in conjunction with the merger with CVC.

As described in Note 1 to the Company's Consolidated Financial Statements, effective January 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.* The cumulative effect of this change on prior years resulted in a charge to income of $18.4 million (net of income taxes of $12.6 million) which is included in the Consolidated Statement of Operations for the year ended December 31, 2000.

Years Ended December 31, 1999 and 1998

Net sales were $329.5 million for the year ended December 31, 1999, representing an increase of $46.4 million, or 16.4%, when compared to the year ended December 31, 1998. Sales in the U.S., Europe, Japan and Asia Pacific, respectively, accounted for 46.1%, 18.5%, 22.6% and 11.8%, respectively, of the Company's net sales for the year ended December 31, 1999. Sales in the U.S. remained relatively flat, while international sales included a 64.4% increase in Japan and a 58.8% increase in Asia Pacific from the comparable 1998 period. The increase in sales in Japan and Asia Pacific principally reflects increased process equipment sales to data storage customers along with increased metrology sales in Asia Pacific for data storage and semiconductor applications. During the last 2 years, the Company has established subsidiaries in these regions that provide direct Veeco sales and service. The Company believes that there will continue to be quarter-to-quarter variations in the geographic concentration of sales.

Process equipment sales of $200.3 million for the year ended December 31, 1999, increased by $63.0 million, or 45.9%, from the comparable 1998 period, as sales improved across all product lines related to data storage. The Company believes that the shift in data storage sales to process equipment from metrology products in 1999 is a result of customers focusing on GMR product qualifications rather than yield improvement. Additionally, 19.4% of the increase related to strong Ion Tech sales to the optical telecommunications industry and $13.3 million additional sales resulting from the Commonwealth acquisition in May 1999. Industrial measurement sales for the year ended December 31, 1999, of $17.1 million decreased 13.5% from the comparable 1998 period. Metrology sales of $112.2 million for the year ended December 31, 1999 decreased by $14.0 million, or 11.1%, from the comparable 1998 period, principally reflecting decreased purchases of metrology products in data storage applications.

Veeco received $347.7 million of orders for the year ended December 31, 1999, representing a 22.6% increase from $283.6 million of orders in the comparable 1998 period. Process equipment orders increased 65.4% to $221.4 million as a result of an increase in orders of ion beam etch products and strong orders for Ion Tech's DWDM related equipment. Metrology orders decreased 14.8% to $111.9 million reflecting the reduction in orders for inspection equipment for data storage. Industrial measurement orders decreased 21.7% to $14.3 million as a result of a reduction in orders of industrial leak detection equipment. The book-to-bill ratio for the year ended December 31, 1999 was 1.06 to 1.

Gross profit for the year ended December 31, 1999 of $153.4 million represents an increase of $27.7 million from the comparable 1998 period. Gross profit as a percentage of net sales increased to 46.5% in 1999 from 44.4% in 1998. Process equipment gross margin improved to 42.5% in 1999 compared to 39.0% in 1998 principally as a result of increased sales volume. Metrology gross margin improved to 56.0% in 1999 compared to 51.2% in 1998 in spite of the volume decline noted above. The metrology margin improvement is due to favorable mix and pricing in both the atomic force microscope and optical inspection product lines.

Research and development expense for the year ended December 31, 1999 of $44.2 million increased by $3.6 million, or 8.8%, over the comparable period of 1998, as the Company increased its investment in new product development, primarily for the process equipment product line.

Selling, general and administrative expenses of $65.8 million for the year ended December 31, 1999 increased $9.9 million or 17.7% over the comparable period of 1998. As a percentage of sales, selling, general and administrative expenses represent 20.0% for the year ended December 31, 1999 and 19.8% for the year ended December 31, 1998. The 1999 increase is attributable to an increase in international sales and service personnel and locations. In 1999, the Company accelerated the transition from representative and distributor organizations to direct Veeco sales and service capability in Japan and Asia Pacific.

During 1999, the Company recorded charges of $2.6 million and $2.5 million before taxes related to the merger with Ion Tech and the sale of the leak detection business, respectively. In conjunction with the OptiMag acquisition, the Company recorded a $1.3 million write-off of the fair values of acquired in-process research and development projects that had not reached technological feasibility and had no alternative uses. On the date of acquisition, OptiMag's in-process R&D value was comprised of the Oasis version 1.0 hardware and software component development program that was expected to reach

completion in March 2000. This program includes the introduction of certain new technologies. At the acquisition date, OptiMag's R&D program was approximately 84% complete, with the remainder completed in 2000. On the acquisition date, certain projects within OptiMag's R&D programs were expected, if successful, to begin to bear results in 2001. These estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Additionally, this project will require maintenance R&D after it has reached a state of technological and commercial feasibility. Management believes the Company is positioned to complete the R&D program. However, there is risk associated with the completion of the project and there is no assurance that the project will meet with either technological or commercial success. In conjunction with CVC's acquisition of Commonwealth Scientific Corporation, CVC acquired purchased in-process R&D, which included the value of products in the development stage that had not reached technological feasibility and for which there was no alternative future use. Accordingly, the amount of $1.2 million, consisting of four technology groupings: ion source products, etch modules, deposition modules and dielectric deposition modules, which had fair values of $0.2 million, $0.5 million, $0.3 million and $0.2 million, respectively, was expensed in 1999. The fair value was determined using the income approach, which involves estimating the discounted after-tax cash flows attributable to projects based on the projects' stage of completion. A discount rate of 35% was applied to the projects' cash flows and there were no material changes from historical pricing, margins, and expense levels. Due to the merger of Veeco and CVC, the Company implemented a reorganization plan, which included the closing of CVC's Virginia facilities. Due to this restructuring, the Commonwealth in-process R&D program has been abandoned by the Company. During 2000, approximately $608,000 has been spent on this program.

During 1998, the Company recorded a $7.5 million pre-tax charge for merger and reorganization expenses principally related to the merger with Digital, of which approximately $1.7 million represented severance and other costs and an estimated loss on a future sublease of an abandoned office and manufacturing facility. At December 31, 1999, approximately $35,000 remained accrued for these expenses. During 1999, the Company incurred approximately $900,000 of costs that were charged against the accrual.

Income taxes for the year ended December 31, 1999 amounted to $13.9 million or 38.8% of income before income taxes, as compared with $6.0 million or 30.6% of income before income taxes in 1998. The lower effective tax rate in 1998 reflects Digital's "S" Corporation tax status for five months in 1998 (through the merger date). As an "S" Corporation, Digital was not subject to federal income tax at the corporation level.

Liquidity and Capital Resources

Net cash provided by operations totaled $10.3 million in 2000 compared to $9.1 million in 1999 and $3.5 million in 1998. Cash provided by operations in 2000 includes adjustments to reconcile net (loss) to net cash provided principally from non-cash charges for depreciation and amortization, cumulative effect of change in accounting principle related to SAB 101, non-cash merger and reorganization expenses and a stock option income tax benefit aggregating $82.0 million plus an increase of accounts payable and accrued expenses, deferred gross profit and other current liabilities of $7.0 million and $9.4 million, respectively. These items were partially offset by the net loss of $17.9 million and an increase in accounts receivable, inventories and deferred income tax benefit of $24.1 million, $20.3 million and $22.0 million, respectively. Accrued expenses and other current liabilities increased due primarily to the increase in customer deposits and advanced billings for current bookings, partially offset by the decrease in income taxes payable. Accounts receivable increased due to the increased sales volume for 2000. The increase in inventories is attributable to production ramp for both Ion Tech products and metrology tools. The increase in deferred tax benefit is due to future tax deductions related principally to stock options and inventory reserves. As a result of the merger and reorganization costs incurred in connection with the CVC merger, as well as the income tax benefit associated with the stock option exercises, the Company anticipates a refund of income taxes of approximately $4.1 million. Net cash provided by operations for the year ended December 31, 2000 also included operating activities for the three months ended December 31, 1999 related to CVC. Prior to the merger, CVC's fiscal year end was September 30. Net cash from operations in 1999 resulted from (i) net income plus non-cash charges for depreciation and amortization, loss on the sale of the leak detection business, write-off of purchased in-process technology and a stock option income tax benefit aggregating $39.0 million plus increases in accrued expenses and other current liabilities and accounts payable of $2.5 million and $1.2 million, respectively. These items were partially offset by an increase in accounts receivable, inventories and a deferred income tax benefit of $26.2 million, $3.3 million and $3.5 million, respectively. The increase in accrued expenses and other current liabilities is principally due to an increase in income taxes payable. Accounts receivable increased due to increased sales volume. The increase in inventories was attributable to an increase in process equipment orders as well as certain shipments being delayed by customers at December 31, 1999. Net cash from operations in 1998 resulted from net income plus non-cash charges for depreciation and amortization, stock option income tax benefit and certain merger and reorganization charges of $27.5 million and a decrease of accounts receivable of $3.6 million. These items were partially offset by increases in inventories and a deferred income tax benefit of $8.3 million and $1.3 million, respectively, and decreases of accounts payable, accrued expenses and other current liabilities of $8.5 million and $9.7 million,

respectively. The increase in inventories resulted from the increased order and sales levels and to support new product introductions through demonstration tools.

Net cash used in investing activities in 2000 totaled $4.7 million compared to $63.3 million in 1999 and $13.1 million in 1998. Cash used in 2000 consisted of $13.8 million for the purchase of assets of acquired businesses and capital expenditures of $17.8 million, partially offset by net sales and maturities of short-term investments of $24.0 million, proceeds from the sale of the leak detection business of $3.0 million and the sale of property, plant and equipment of $0.5 million. Included in the net cash used in investing activities for the year ended December 31, 2000 is investing activities for the three months ended December 31, 1999 related to CVC. Prior to the merger, CVC's fiscal year end was September 30. Cash used in 1999 consisted of net purchases of short-term investments of $50.9 million, $3.3 million for the purchase of OptiMag's net assets and $12.2 million of capital expenditures, partially offset by $3.1 million of proceeds from sale of property, plant and equipment. The net purchases of short-term investments resulted from the proceeds of the Company's public offering in February 1999. Net cash used for investing activities in 1998 primarily related to capital expenditures of $13.1 million.

Net cash provided by financing activities totaled $25.6 million in 2000 compared to $60.2 million in 1999 and $11.2 million in 1998. The generation of cash in 2000 primarily resulted from stock issuances of $31.3 million, partially offset by debt repayments of $9.3 million. Net cash provided by financing activities for the year ended December 31, 2000 also included financing activities for the three months ended December 31, 1999 of $3.6 million related to CVC. Prior to the merger, CVC's fiscal year end was September 30. The generation of cash in 1999 primarily resulted from a public offering by the Company in February 1999, proceeds from exercise of stock options and stock issuances under the Company's employee stock purchase plan and $6.5 million net proceeds from borrowings under lines of credit, partially offset by repayments of long-term debt. The generation of cash in 1998 resulted from proceeds from borrowings under the lines of credit, stock issuances and proceeds from long-term debt of $3.6 million, $3.8 million and $9.0 million, respectively. This amount was partially offset by repayments of long-term debt of $3.1 million and distributions to former Digital shareholders of $2.1 million.

The Company has an unsecured $40.0 million Credit Facility (the "Credit Facility") which may be used for working capital, acquisitions and general corporate purposes. The Credit Facility bears interest at the prime rate of the lending banks, but such rate may be increased to a maximum rate of 0.25% above the prime rate in the event the Company's ratio of debt to cash flow exceeds a defined ratio. A LIBOR-based interest rate option is also provided. The Credit Facility expires December 31, 2001, but under certain conditions is convertible into a term loan, which would amortize quarterly through December 31, 2005. The Credit Facility contains certain covenants, including a restriction on the Company's ability to pay dividends. As of December 31, 2000, there were no amounts outstanding under the Credit Facility. The Company's CVC subsidiary also had a $15.0 million bank line of credit, which allowed for borrowings based on certain financial criteria and which had an interest rate of prime. As of December 31, 2000, no borrowings were outstanding under this line. As of December 31, 1999, approximately $10,679,000 was outstanding under this line. On January 31, 2001, this line was terminated by the Company.

In connection with the atomic force microscope acquisition, the Company is required to pay approximately $4.8 million of the purchase price to the seller, due in four equal quarterly installments, with the final payment due on March 23, 2001. As of December 31, 2000, approximately $3.6 million has been paid.

In connection with the OptiMag acquisition, the Company will be required to pay consideration to the former shareholders of OptiMag based upon both year 2000 sales and the appraised value of OptiMag. During the year, approximately $1,600,000 of contingent consideration related to OptiMag's revenues has been accrued and recorded as an addition to excess of cost over net assets acquired. The contingent consideration based upon the appraised value of OptiMag is currently not known. The amount will be determined by an independent appraiser during 2001.

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Credit Facility will be sufficient to meet the Company's projected working capital and other cash flow requirements (including the payments described in the preceding paragraphs) through 2001.

Risk Factors That May Impact Future Results

In addition to the other information set forth herein, the following risk factors should be carefully considered by shareholders of and by potential investors in the Company.

Dependence on Microelectronics Industry; Cyclicality of Data Storage, Semiconductor and Optical Telecommunications Industries. Veeco's business depends in large part upon the capital expenditures of data storage, semiconductor and optical telecommunications manufacturers which accounted for the following percentages of the Company's net sales for the periods indicated:

	Year ended December 31,		
	2000	1999	1998
Data Storage	**44%**	62%	60%
Optical Telecommunications	**23%**	7%	3%
Semiconductor/research/industrial	**33%**	31%	37%

The data storage, semiconductor and optical telecommunications industries have been characterized by cyclicality. These industries have experienced significant economic downturns at various times in the last decade, characterized by diminished product demand, accelerated erosion of average selling prices and production overcapacity. A downturn in the businesses of one or more of the Company's customers could have a material adverse effect on the Company's results of operations or financial position.

Fluctuations in Quarterly Operating Results. Veeco's quarterly results have fluctuated significantly in the past and we expect this trend to continue. Factors which affect quarterly results include:

- cyclical patterns of capital spending by customers;
- a downturn in the market for personal computers, network servers, opto-telecommunication devices or other products incorporating data storage, opto-telecommunications or semiconductor technology;
- market acceptance of Veeco's systems and Veeco's customers' products;
- specific economic conditions in the data storage, semiconductor, and optical telecommunications industries;
- the timing of significant orders and customer acceptance of Veeco's products;
- the introduction of new products by Veeco and its competitors;
- production and quality problems and resulting shipment delays;
- changes in the cost of materials; and
- disruption in sources of supply.

Many of these factors are beyond Veeco's control. If Veeco's net sales levels in a particular quarter do not meet expectations, Veeco's operating results will be adversely affected, which may have an adverse impact on the Company's Common Stock price.

Rapid Technological Change; Importance of Timely Product Introduction. The data storage, semiconductor and optical telecommunications manufacturing industries are subject to rapid technological change and new product introductions and enhancements. Veeco's ability to remain competitive will depend in part upon the Company's ability to develop in a timely and cost effective manner new and enhanced systems at competitive prices and to accurately predict technology transitions. In addition, new product introductions or enhancements by Veeco's competitors could cause a decline in sales or loss of market acceptance of Veeco's existing products. Increased competitive pressure could also lead to intensified price competition resulting in lower margins, which could materially and adversely affect the Company's business, financial condition and results of operations. The Company's success in developing, introducing and selling new and enhanced systems depends upon a variety of factors, including:

- Veeco's product offerings;
- timely and efficient completion of product design and development;
- timely and efficient implementation of manufacturing processes;
- effective sales, service and marketing; and
- product performance in the field.

Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both the future demand for the products under development and the equipment required to produce such products. Veeco cannot be certain that it will be successful in selecting, developing, manufacturing and marketing new products or in enhancing existing products.

Risk of Cancellation or Rescheduling of Orders. Customer purchase orders are subject to cancellation or rescheduling by the customer, generally with limited or no penalties. Therefore, backlog at any particular date is not necessarily representative of actual sales for any succeeding period. The Company's net sales and operating results for a quarter may depend upon orders

obtained for systems to be shipped in the same quarter that the order is received. In addition, Veeco derives a substantial portion of its net sales in any fiscal period from the sale of a relatively small number of high-priced systems. As a result, the timing of recognition of revenue for a single transaction could have a material adverse effect on Veeco's sales and operating results. Veeco's business and financial results for a particular period could be materially and adversely affected if orders are cancelled or rescheduled or if an anticipated order for even one system is not received in time to permit shipping during the period.

Highly Competitive Industry. The industries in which Veeco operates are intensely competitive. Established companies, both domestic and foreign, compete with each of Veeco's product lines. Many of Veeco's competitors have greater financial, engineering, manufacturing and marketing resources than the Company. A substantial investment is required by customers to install and integrate capital equipment into a production line. As a result, once a manufacturer has selected a particular vendor's capital equipment, Veeco believes that the manufacturer generally relies upon that equipment for the specific production line application and frequently will attempt to consolidate its other capital equipment requirements with the same vendor. Accordingly, if a particular customer selects a competitor's capital equipment, the Company expects to experience difficulty in selling to that customer for a significant period of time. The Company believes that Veeco's ability to compete successfully depends on a number of factors both within and outside of Veeco's control, including:

- price;
- product quality;
- breadth of product line;
- system performance;
- cost of ownership;
- global technical service and support; and
- success in developing or otherwise introducing new products.

Veeco cannot be certain that it will be able to compete successfully in the future.

Dependence on Principal Customers; Industry Concentration. Veeco relies on its principal customers for a significant portion of its sales. Veeco's principal customers include Seagate Technology, Inc. ("Seagate") and International Business Machines Corporation ("IBM"). The following table sets forth the percentage of Veeco's net sales to customers with sales greater than 10% in any of the respective periods:

	Year Ended December 31,		
	2000	1999	1998
Seagate	**18%**	19%	15%
IBM	**4%**	12%	14%

The loss of a major customer, or of a significant portion of the sales to a major customer, could adversely affect Veeco's results of operations. Veeco's ability to increase sales in the future will depend in part upon Veeco's ability to obtain orders from new customers. The Company cannot be certain that it will be able to do so. In addition, a relatively small number of large manufacturers, many of whom are Veeco's customers, dominate the data storage industry, the semiconductor industry and the optical telecommunications industry. If any of these large manufacturers discontinues its relationship with Veeco or suffers economic setbacks, Veeco's results of operations could be materially and adversely affected.

Quantitative and Qualitative Disclosure about Market Risk.

Market Risk

The principal market risks (i.e. the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are:

- interest rates on debt and short-term investment portfolios; and
- foreign exchange rates, generating translation and transaction gains and losses.

Interest Rates

Veeco centrally manages its debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. Veeco's investment portfolios consist of cash equivalents, commercial paper, municipal bonds and obligations of U.S. Government agencies. These investments are considered available-for-sale securities. Accordingly, the carrying amounts approximate market value. Assuming year-end 2000 variable debt and investment levels, a one-point change in interest rates would not have a material impact on net interest expense.

Foreign Operations

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements on Veeco is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.

Veeco's net sales to foreign customers represented approximately 49.6 % of Veeco's total net sales in 2000, 53.9% in 1999 and 47.1% in 1998. 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 8.8% of Veeco's total net sales in 2000, 8.6% in 1999 and 9.4% in 1998. The Company generally has not engaged in foreign currency hedging transactions. The aggregate foreign exchange gains and (losses) included in determining consolidated results of operations were ($804,000), ($421,000) and $774,000 in 2000, 1999 and 1998, respectively.

The change in currency exchange rate that has the largest impact on translating Veeco's international operating profit is the Japanese yen. The Company estimates that a 10% change in foreign exchange rates would impact reported operating profit by approximately $1.6 million. The Company believes that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

Consolidated Balance Sheets

(Dollars in thousands)	December 31,	
	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	**$ 63,420**	$ 29,852
Short-term investments	**26,895**	50,888
Accounts receivable, less allowance for doubtful accounts of $2,116 in 2000 and $2,403 in 1999	**98,248**	79,952
Inventories	**100,062**	85,876
Prepaid expenses and other current assets	**8,307**	7,507
Deferred income taxes	**45,303**	12,363
Total current assets	**342,235**	266,438
Property, plant and equipment at cost, net	**60,094**	61,298
Excess of cost over net assets acquired, less accumulated amortization of $1,908 in 2000 and $1,352 in 1999	**9,481**	6,500
Other assets, net	**11,473**	6,960
Total assets	**$423,283**	$341,196
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 33,134**	$ 27,723
Accrued expenses	**56,093**	37,706
Deferred gross profit	**28,771**	—
Income taxes payable	**2,343**	7,580
Current portion of long-term debt	**1,431**	2,773
Short-term borrowings from lines of credit	**—**	10,679
Notes payable to former Digital shareholders	**—**	8,000
Total current liabilities	**121,772**	94,461
Deferred income taxes	**2,681**	4,281
Long-term debt	**14,631**	17,252
Other liabilities	**1,291**	1,258
Shareholders' equity:		
Preferred stock, 500,000 shares authorized; no shares issued and outstanding	**—**	—
Common stock, 40,000,000 shares authorized; 24,662,651 and 21,279,565 shares issued and outstanding in 2000 and 1999, respectively	**247**	213
Additional paid-in capital	**226,628**	149,446
Retained earnings	**58,175**	75,276
Unamortized deferred compensation	**(23)**	(135)
Accumulated comprehensive loss	**(2,119)**	(856)
Total shareholders' equity	**282,908**	223,944
Total liabilities and shareholders' equity	**$423,283**	$341,196

See accompanying notes.

Consolidated Statements of Operations

(In thousands, except per share data)

	Year ended December 31,		
	2000	1999	1998
Net sales	**$386,668**	$329,521	$283,158
Cost of sales	**227,838**	176,152	157,460
Gross profit	**158,830**	153,369	125,698
Costs and expenses:			
Research and development expense	**53,904**	44,175	40,591
Selling, general and administrative expense	**78,861**	65,809	55,928
Amortization expense	**3,736**	479	389
Other expense (income), net	**929**	123	(1,217)
Merger and reorganization expenses	**14,206**	2,600	7,500
Asset impairment charge	**3,722**	—	—
Loss on sale of leak detection business	**—**	2,500	—
Write-off of purchased in-process technology	**—**	2,474	—
Write-off of deferred charges	**—**	—	675
	155,358	118,160	103,866
Operating income	**3,472**	35,209	21,832
Interest expense	**2,374**	2,976	2,777
Interest income	**(3,681)**	(3,671)	(592)
Income before income taxes and cumulative effect of change in accounting principle	**4,779**	35,904	19,647
Income tax provision	**4,277**	13,923	6,010
Net income before cumulative effect of change in accounting principle	**502**	21,981	13,637
Cumulative effect of change in accounting principle, net of income taxes	**(18,382)**	—	—
Net (loss) income	**$ (17,880)**	$ 21,981	$ 13,637
Earnings (loss) per common share:			
Net income per common share before cumulative effect of change in accounting principle	**$ 0.02**	$ 1.07	$ 0.73
Cumulative effect of change in accounting principle, net of income taxes	**(0.77)**	—	—
Net (loss) income per common share	**$ (0.75)**	$ 1.07	$ 0.73
Diluted net income per common share before cumulative effect of change in accounting principle	**$ 0.02**	$ 1.02	$ 0.70
Cumulative effect of change in accounting principle	**(0.73)**	—	—
Diluted net (loss) income per common share	**$ (0.71)**	$ 1.02	$ 0.70
Pro forma amounts assuming retroactive effect of change:			
Net income	**$ 502**	$ 13,695	$ 12,682
Net income per common share	**$ 0.02**	$ 0.66	$ 0.68
Diluted net income per common share	**$ 0.02**	$ 0.64	$ 0.65
Weighted average shares outstanding	**23,805**	20,604	18,775
Diluted weighted average shares outstanding	**25,128**	21,461	19,436

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unamortized Deferred Compensation	Accumulated Comprehensive (Loss) Income	Total	Comprehensive Income
Balance at December 31, 1997	18,550,080	$ 186	$ 65,394	$ 42,302	$(254)	$ (53)	$107,575	
Exercise of stock options and stock issuances under stock purchase plan	455,039	5	3,781	—	—	—	3,786	—
Translation adjustment	—	—	—	—	—	426	426	$ 426
Stock option income tax benefit	—	—	3,189	—	—	—	3,189	—
Non-cash compensation charge	—	—	1,585	—	—	—	1,585	—
Net income	—	—	—	13,637	—	—	13,637	13,637
Adjustment to reflect change in year-end for Ion Tech	—	—	—	(412)	—	—	(412)	—
Minimum pension liability, net of tax effect	—	—	—	—	—	(44)	(44)	(44)
Deferred compensation	—	—	109	—	2	—	111	—
Distributions to former shareholders of Digital and Ion Tech	—	—	—	(2,134)	—	—	(2,134)	—
Balance at December 31, 1998	19,005,119	191	74,058	53,393	(252)	329	127,719	$ 14,019
Exercise of stock options and stock issuances under stock purchase plan	1,274,446	12	24,639	—	—	—	24,651	—
Stock option income tax benefit	—	—	1,911	—	—	—	1,911	—
Translation adjustment	—	—	—	—	—	(1,008)	(1,008)	$ (1,008)
Unrealized loss on available-for-sale securities	—	—	—	—	—	(14)	(14)	(14)
Net income	—	—	—	21,981	—	—	21,981	21,981
Net proceeds from public offering	1,000,000	10	48,850	—	—	—	48,860	—
Minimum pension liability, net of tax effect	—	—	—	—	—	(163)	(163)	(163)
Deferred compensation	—	—	(12)	—	117	—	105	—
Distributions to former shareholders of Ion Tech	—	—	—	(98)	—	—	(98)	—
Balance at December 31, 1999	21,279,565	213	149,446	75,276	(135)	(856)	223,944	$ 20,796
Adjustment to reflect change in year-end for CVC	**1,338,208**	**13**	**16,938**	**545**	**—**	**—**	**17,496**	**—**
Exercise of stock options and stock issuances under stock purchase plan	**1,762,654**	**18**	**31,256**	**—**	**—**	**—**	**31,274**	**—**
Stock option income tax benefit	**—**	**—**	**28,988**	**—**	**—**	**—**	**28,988**	**—**
Stock issued in connection with the Monarch merger	**282,224**	**3**	**—**	**234**	**—**	**—**	**237**	**—**
Translation adjustment	**—**	**—**	**—**	**—**	**—**	**(1,279)**	**(1,279)**	**$ (1,279)**
Unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**16**	**16**	**16**
Net loss	**—**	**—**	**—**	**(17,880)**	**—**	**—**	**(17,880)**	**(17,880)**
Deferred compensation	**—**	**—**	**—**	**—**	**112**	**—**	**112**	**—**
Balance at December 31, 2000	**24,662,651**	**$247**	**$226,628**	**$ 58,175**	**$ (23)**	**$(2,119)**	**$282,908**	**($19,143)**

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31,		
	2000	1999	1998
Operating activities			
Net (loss) income	**$ (17,880)**	$ 21,981	$ 13,637
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	**15,551**	10,010	7,179
Deferred income taxes	**(22,036)**	(3,492)	(1,335)
Stock option income tax benefit	**28,988**	1,911	3,189
Cumulative effect of change in accounting principle	**18,382**	—	—
Non-cash merger and reorganization expenses	**19,044**	—	3,544
Loss on sale of leak detection business	**—**	2,500	—
Write-off of purchased in-process technology	**—**	2,474	—
Other	**(47)**	(664)	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	**(24,122)**	(26,155)	3,577
Inventories	**(20,299)**	(3,253)	(8,343)
Accounts payable	**7,046**	1,204	(8,529)
Accrued expenses, deferred gross profit and other current liabilities	**9,420**	2,460	(9,711)
Recoverable income taxes	**(4,100)**	—	—
Other, net	**(273)**	140	308
Operating activities three months ended 12/31/99—CVC	**638**	—	—
Net cash provided by operating activities	**10,312**	9,116	3,516
Investing activities			
Capital expenditures	**(17,810)**	(12,237)	(13,127)
Proceeds from sale of property, plant and equipment	**497**	3,129	—
Proceeds from sale of leak detection business	**3,000**	—	—
Payments for net assets of businesses acquired	**(13,835)**	(3,300)	—
Purchases of available-for-sale securities	**(436,013)**	(395,949)	—
Sales of available-for-sale securities	**110,453**	29,407	—
Maturities of available-for-sale securities	**349,578**	315,631	—
Investing activities three months ended 12/31/99—CVC	**(528)**	—	—
Net cash used in investing activities	**(4,658)**	(63,319)	(13,127)
Financing activities			
Proceeds from stock issuances	**31,274**	65,403	3,786
Net proceeds from borrowings under lines of credit	**—**	6,540	3,612
Proceeds from long-term debt	**—**	—	9,001
Repayments of long term debt	**(9,318)**	(11,687)	(3,052)
Distributions to former shareholders of Digital and Ion Tech		(98)	(2,134)
Financing activities three months ended 12/31/99—CVC	**3,627**	—	—
Net cash provided by financing activities	**25,583**	60,158	11,213
Effect of exchange rate changes on cash and cash equivalents	**2,331**	298	(989)
Net increase in cash and cash equivalents	**33,568**	6,253	613
Cash and cash equivalents at beginning of year	**29,852**	23,599	22,986
Cash and cash equivalents at end of year	**$ 63,420**	$ 29,852	$ 23,599

See accompanying notes.

1. Description of Business and Significant Accounting Policies

Business

Veeco Instruments Inc. ("Veeco" or the "Company") designs, manufactures, markets and services a broad line of equipment primarily used by manufacturers in the optical telecommunications, data storage and semiconductor/research industries. These industries help create a wide range of information age products for today and tomorrow—such as personal computers, network servers, fiber optic networks, digital cameras, TV set-top boxes and personal digital assistants. The Company's process equipment products precisely deposit or remove (etch) various materials in the manufacturing of advanced thin film magnetic heads for the data storage industry and optical telecommunications components. The Company's merger with CVC in May 2000 strengthened Veeco's position in the data storage industry. With the acquisition of Ion Tech in 1999, Veeco became a supplier of ion beam deposition equipment to the optical filter market (dense wavelength division multiplexing or "DWDM"). The DWDM optical filters are used to expand the capacity of fiber optic networks. Veeco's broad line of technology allows customers to improve time to market of next-generation products. Veeco's metrology equipment is used to provide critical surface measurements on thin film magnetic heads and disks used in hard drives, as well as on semiconductor devices, and in optical telecommunications and research applications. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Veeco and its subsidiaries. Intercompany items and transactions have been eliminated in consolidation.

Derivatives

In June 1998, the FASB issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and on June 15, 2000, issued Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment to FASB Statement No. 133.* These statements establish methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company is required to adopt these statements in the first quarter of 2001.

The Company has assessed the impact of these statements on its consolidated financial statements and believes that the effect will not be material to the Company's consolidated operating results.

Revenue Recognition

Effective January 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements.* Previously, the Company recognized revenue when title passed to the customer, generally upon shipment. Under the new accounting method adopted retroactive to January 1, 2000, the Company now recognizes revenue based on the type of equipment that is sold and the terms and conditions of the underlying sales contracts.

Generally, for its more complex process equipment products generally sold to companies in the data storage and specialty semiconductor industries, the Company now recognizes revenue upon completion of installation of the equipment and receipt of final customer acceptance. Such products usually have substantive customer acceptance provisions.

For certain process equipment products generally sold to the telecommunications industry, the Company is typically required to install the equipment at the customer's site. In such cases revenue is generally recorded when title passes to the customer, generally upon shipment. The amount of revenue recorded is reduced by the amount of any customer retention (generally 10%), which is not payable by the customer until the 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 certain metrology products where no installation is required or installation is deemed perfunctory and no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally upon shipment.

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

The cumulative effect of the change from the prior year resulted in a charge to income of $18,382,000 (net of income taxes of $12,639,000), which is included in the Consolidated Statement of Operations for the year ended December 31, 2000. The effect of the change on the year ended December 31, 2000 was to increase income before the cumulative effect of the accounting change by $1,304,000 ($.05 per share). The pro forma amounts presented in the Consolidated Statements of Operations were calculated assuming the accounting change was made retroactively to prior periods. For the twelve months ended December 31, 2000, the Company recognized approximately $67,024,000 in revenue that was included in the cumulative effect adjustment as of January 1, 2000. The effect of that revenue was to increase income by $18,382,000 (after reduction for income taxes of $12,639,000) during the year ended December 31, 2000. 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.

Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Interest paid during 2000, 1999 and 1998 was approximately $2,327,000, $2,840,000 and $2,837,000, respectively. Income taxes paid in 2000, 1999 and 1998 was approximately $6,698,000, $6,948,000 and $6,314,000, respectively.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out method) or market.

Depreciable Assets

Depreciation and amortization are generally computed by the straight-line method and are charged against income over the estimated useful lives of depreciable assets.

Long-Lived Assets

Excess of cost over net assets acquired is being amortized on a straight-line basis over periods ranging from 10 to 40 years. Other intangible assets, included within other assets in the consolidated balance sheet, consist of purchased technology, patents, assembled workforce, trademarks, covenants not-to-compete, software licenses and deferred finance costs aggregating $10,344,000 and $5,823,000, which are net of accumulated amortization of $4,384,000 and $1,841,000 at December 31, 2000 and 1999, respectively. Other intangible assets are amortized over periods ranging from 2 to 17 years.

The carrying values of intangible and other 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 amortization and depreciation period, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. No such impairment exists at December 31, 2000.

Environmental Compliance and Remediation

Environmental compliance costs include ongoing maintenance, monitoring and similar costs. Such costs are expensed as incurred. Environmental remediation costs are accrued when environmental assessments and/or remedial efforts are probable and the cost can be reasonably estimated.

Foreign Operations

Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the balance sheet date. Resulting translation adjustments due to fluctuations in the exchange rates are recorded as a separate component of shareholders' equity. Income and expense items are translated at the average exchange rates during the respective periods.

Research and Development Costs

Research and development costs are charged to expense as incurred and include expenses for development of new technology and the transition of the technology into new products or services.

Advertising Expense

The cost of advertising is expensed as of the first showing. The Company incurred $5,184,000, $4,553,000 and $4,702,000 in advertising costs during 2000, 1999 and 1998, respectively.

Stock Based Compensation

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options is set equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Prior to the merger with Veeco, CVC granted approximately 69,000 options to employees during 1998, at an amount which was less than the fair market value as of the grant date. Accordingly, CVC recorded unamortized deferred compensation expense for such options which vest over periods ranging from 3 to 5 years. Compensation expense is being amortized over the vesting period and unamortized compensation expense has been recorded as a reduction to stockholders' equity.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short maturities.

The fair values of the Company's debt, including current maturities, are estimated using discounted cash flow analyses, based on the estimated current incremental borrowing rates for similar types of securities. The carrying amount of the Company's debt at December 31, 2000 and 1999 approximates its fair value.

(Loss) Earnings Per Share

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

(In thousands)

	2000	1999	1998
Weighted average shares outstanding	**23,805**	20,604	18,775
Dilutive effect of stock options and warrants	**1,323**	857	661
Diluted weighted average shares outstanding	**25,128**	21,461	19,436

Reclassifications

Certain amounts in the 1999 and 1998 consolidated financial statements have been reclassified to conform with the 2000 presentation.

2. Business Combinations and Basis of Presentation

CVC, Inc.

On May 5, 2000, a wholly-owned subsidiary of the Company merged with CVC, Inc. ("CVC"), of Rochester, New York. As a result, CVC became a wholly-owned subsidiary of the Company. Under the terms of the agreement, CVC shareholders received 0.43 shares of Veeco Common Stock (5,386,238 shares in total) for each share of CVC common stock outstanding. The merger was accounted for as a pooling of interests and, as a result, historical consolidated financial data has been restated to include CVC data. CVC provides cluster tool equipment used in the production of disk drive head fabrication, optical active and passive components and specialty semiconductor applications.

During June 2000, the Company implemented a reorganization plan in an effort to integrate CVC into the Company, consolidate duplicate manufacturing facilities and reduce other operating costs. Veeco incurred non-recurring charges of $33.0 million during the year ended December 31, 2000. Of these charges, $15.3 million related to a non-cash charge write-off of inventory (included in cost of sales), $14.0 million represented merger and reorganization costs (of which $9.2 million related to investment banking, legal and other one-time transaction costs and $4.8 million pertained to duplicate facility and personnel costs) and $3.7 million was for the write-down of long-lived assets. The $4.8 million charge for duplicate facility and personnel costs principally related to the closing of CVC's Virginia facilities and an approximate 200-person work force reduction, which included both management and manufacturing employees principally located in Alexandria, Virginia, and Rochester and Plainview, New York. The accrual of $14.0 million for merger and reorganization costs was expended as of December 31, 2000, which represented $9.4 million for transaction costs, $3.5 million for termination benefits paid and $1.1 million for duplicate facility costs. The write-down of long-lived assets to estimated net realizable value related primarily to leasehold improvements, machinery and equipment and intangible assets for CVC's Virginia facilities. In addition, the $15.3 million non-cash write-off of inventory principally related to CVC Virginia facilities' product line of ion beam etch and deposition equipment. The Company has integrated this product line into Veeco's existing ion beam etch and deposition products, and has determined that a portion

of this product line's inventory is not useable. The following table displays the revenues and net (loss) income of CVC, Inc. for the periods preceding the business combination and the amounts after the merger through December 31, 2000:

	Year ended December 31,		
	2000	1999	1998
Net sales:			
Veeco (pre-merger)	**$ 82,861**	$246,606	$214,985
CVC	**18,506**	82,915	68,173
Veeco (post-merger)	**285,301**	—	—
Combined	**$386,668**	$329,521	$283,158
Net (loss) income:			
Veeco (pre-merger)	**($6,454)**	$ 20,410	$ 13,373
CVC	**(10,203)**	1,571	264
Veeco (post-merger)	**(1,223)**	—	—
Combined	**$ (17,880)**	$ 21,981	$ 13,637

Prior to the merger, CVC's fiscal year end was September 30 and, therefore, the Consolidated Statements of Operations for 1999 and 1998 include CVC's years ended September 30, 1999 and 1998 Consolidated Statements of Income, respectively. In addition, the December 31, 1999 Consolidated Balance Sheet includes CVC's September 30, 1999 consolidated balance sheet. CVC's operating results for the three months ended December 31, 1999 is not reflected in Veeco's 1999 or 2000 operating results. The following describes the adjustment to retained earnings in 2000 from changing the fiscal year end of CVC effective January 1, 2000 (in thousands):

Revenues from October 1, 1999 to December 31, 1999	$25,216
Expenses from October 1, 1999 to December 31, 1999	24,671
Net income adjustment to Veeco retained earnings at January 1, 2000	$ 545

During the period from October 1, 1999 through December 31, 1999, CVC completed an initial public offering (November 1999), pursuant to which 1,290,000 shares of common stock, par value $.01 per share, were issued and sold. In addition, 48,208 shares of common stock were issued upon exercise of CVC stock options from the period October 1, 1999 to December 31, 1999.

Monarch Labs, Inc.

On January 31, 2000, Monarch Labs, Inc. ("Monarch"), a developer and manufacturer of automated quasi-static test systems for the data storage industry, merged with a subsidiary of Veeco. Monarch was a privately-held company located in Longmont, Colorado. Under the terms of the merger, Monarch shareholders received 282,224 shares of Veeco Common Stock. The merger was accounted for as a pooling of interests transaction, however, as Monarch's historical results of operations and financial position are not material in relation to those of Veeco, financial information prior to the merger is not restated. Accordingly, $3,000 and $234,000 have been included as an adjustment to common stock and additional paid-in capital, respectively, during the year ended December 31, 2000.

Ion Tech, Inc.

On November 4, 1999, Ion Tech, Inc. and an affiliate (collectively, "Ion Tech"), a supplier of ion beam deposition systems merged with and into subsidiaries of Veeco. The merger was accounted for as a pooling of interests and, accordingly, historical consolidated financial data has been restated to include Ion Tech data. Under the merger, Ion Tech shareholders received 1,509,437 shares of Veeco Common Stock. Merger expenses of approximately $2,600,000 pertaining to investment banking, legal fees and other one-time transaction costs were charged to operating expenses during the year ended December 31, 1999.

Prior to the merger, Ion Tech's fiscal year end was June 30. In connection with the merger, the financial results of Ion Tech were recast for 1998 to conform to Veeco's December 31 year end. For the year ended 1997, historical results include Ion Tech's fiscal year ended June 30 1998 results, thus resulting in six months of 1998 activity included in the 1997 results of operations. The following describes the adjustment to retained earnings in 1998 from changing the fiscal year end of Ion Tech (in thousands):

Revenues from January 1, 1998 to June 30, 1998	$3,919
Expenses from January 1, 1998 to June 30, 1998	3,447
Net income	472
Distributions to shareholders	60
Adjustment to retained earnings	$ 412

Digital Instruments, Inc.

On May 29, 1998, Veeco merged with Digital Instruments, Inc. ("Digital"), a leader in scanning probe/atomic force microscopy (SPM/AFM). Under the merger, Digital shareholders received 5,583,725 shares of Veeco Common Stock. The merger was accounted for as a pooling of interests and, accordingly, historical financial data has been restated to include Digital data. Merger expenses were comprised of transaction fees and expenses of $3,300,000 and a $1,585,000 non-cash compensation charge related to stock issued in accordance with a pre-existing agreement with a key Digital employee. Reorganization expenses, principally related to the Digital merger, consisted of $509,000 for severance costs, $750,000 for an estimated loss on a future sublease of an abandoned office and manufacturing facility, $887,000 for write-downs of long-lived assets held for sale or disposal and $469,000 for other costs. The Company implemented its reorganization plan in an effort to integrate Digital into the Company, consolidate manufacturing facilities, terminate its marketing and distribution agreements for a metrology product which competed directly with Digital, and reduce other operating expenses. The severance costs covered 13 management and manufacturing employees located in Santa Barbara, California, and Plainview and Orangeburg, New York in the Metrology and Process Equipment segments, respectively. The sublease loss covered an office and manufacturing facility in Santa Barbara, California. Charges associated with the sublease loss were paid over the remaining life of the lease. The write-down of long-lived assets, to estimated net realizable value, related primarily to three SXM atomic force microscopes previously used for demonstration and testing purposes in the Metrology segment. Termination benefits paid during 1998 approximated $300,000. The Company substantially completed the reorganization plan in 1999 and incurred severance, a loss on a sublease and other costs aggregating approximately $900,000, which were charged against the reorganization accrual. The Company sold the long-lived assets in 1999 for an aggregate amount that approximated net book value. At December 31, 2000, the balance of the reorganization accrual has been fully expended.

Prior to the merger, Digital had elected "S" Corporation status for income tax purposes and therefore was not subject to federal income taxes at the corporation level. As a result of the merger, Digital's "S" Corporation election was terminated. Pro forma net income and pro forma net income per common share as shown below reflects income taxes for Digital as if it had been a "C" Corporation for all periods presented:

	Year ended December 31, 1998
Income before income taxes	$19,647
Pro forma income tax provision	7,464
Pro forma net income	$12,183
Pro forma net income per common share	$ 0.65
Pro forma diluted net income per common share	$ 0.63

Atomic Force Microscope Assets

On March 23, 2000, the Company purchased certain atomic force microscope assets from International Business Machines Corporation. The acquisition was accounted for using the purchase method of accounting. Results of operations for the period from March 23, 2000 to December 31, 2000 are included in the accompanying Consolidated Statement of Operations for the year ended December 31, 2000. Results of operations prior to the acquisition are not material to the Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998.

Slider Level Crown Product Line

On February 11, 2000, Veeco entered into a strategic alliance with Seagate Technology, Inc. ("Seagate") under which Veeco assumed production responsibility for Seagate's internal Slider Level Crown ("SLC") product line and acquired rights to commercialize such products for sale to third parties. The acquisition was accounted for using the purchase method of accounting. Results of operations for the period February 11, 2000 to December 31, 2000 are included in the accompanying Consolidated Statement of Operations for the year ended December 31, 2000. Results of operations prior to the acquisition are not material to the Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998.

OptiMag, Inc.

On October 14, 1999, Veeco acquired the capital stock of OptiMag, Inc. ("OptiMag"), of San Diego, California, for cash of $3,300,000 and a deferred payment of $1,200,000, which was paid on October 27, 2000. OptiMag, founded in 1998, is a supplier of automated optical defect inspection and process control equipment for the data storage thin film magnetic head industry. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based on their estimated fair values. In addition, the acquisition calls for contingent consideration to be paid by Veeco based upon both year 2000 revenues and the future appraised value of OptiMag. During the year, approximately $1,600,000 of contingent consideration related to OptiMag's revenues has been accrued and recorded as an addition to

excess of cost over net assets acquired. The contingent consideration based upon the appraised value of OptiMag is currently not known. The amount will be determined during 2001.

The purchase price was allocated as follows: $4,050,000 to excess of cost over net assets acquired; $3,200,000 to core technology; $570,000 to assembled workforce, trademarks and a covenant not-to-compete and $1,300,000 to in-process research and development projects ("R&D") for projects that had not reached technological feasibility and had no alternative future uses and, thus, the amounts allocated to such projects were expensed as of the date of acquisition. OptiMag's in-process R&D value is comprised of the Oasis version 1.0 software and hardware component development program, which includes the introduction of certain new technologies. At the acquisition date, OptiMag's R&D program was approximately 84% complete, with the remainder completed in 2000.

The value assigned to purchased in-process R&D was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from the projects and discounting the net cash flows to their present value. The revenue projection used to value the in-process R&D was based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by the Company and its competitors. The rate utilized to discount the net cash flows to their present value was 30%.

The amortization periods of intangible assets related to excess of cost over net assets acquired, core technology, assembled workforce, trademarks and covenant not-to-compete are ten years, five years, three years, five years and two years, respectively.

The results of operations of OptiMag for the period from October 15, 1999 to December 31, 1999 are included in the accompanying Consolidated Statement of Operations for the year ended December 31, 1999. Results of operations prior to the acquisition are not material to the Consolidated Statements of Operations for the years ended December 31, 1999 and 1998.

Commonwealth Scientific Corporation

On May 10, 1999, CVC acquired Commonwealth Scientific Corporation ("Commonwealth"), a Virginia-based company, which offers ion beam modules and systems which provide ion beam etching, deposition and diamond-like carbon (DLC) processes and ion beam sources for research and development and original equipment manufacturer customers. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated as follows (in thousands):

Net tangible assets of Commonwealth	$6,298
Purchased in-process R&D	1,174
Intangible assets:	
Workforce in place	704
Current technology	265
Goodwill	57
Total purchase price	$8,498

The purchased in-process R&D includes the value of products in the development stage, which have not reached technological feasibility and for which there is no alternative future use. Accordingly, the amount of $1,174,000 was expensed in 1999. The value was determined using the income approach, which involves estimating the discounted after-tax cash flows attributable to projects based on the projects' stage of completion. A discount rate of 35% was applied to the projects' cash flows and there were no material changes from historical pricing, margins, and expense levels. Due to the merger of Veeco and CVC, the Company implemented a reorganization plan, which included the closing of CVC's Virginia facilities. Due to this restructuring, the Commonwealth in-process R&D program has been abandoned by the Company. During 2000, approximately $608,000 has been spent on this program.

Due to the Company's reorganization plan and the closing of CVC's Virginia facilities, the net purchased intangibles of approximately $900,000 were subsequently written off during the year ended December 31, 2000.

The operating results of Commonwealth have been included in the Company's Consolidated Statements of Operations from the date of acquisition. Results of operations prior to the acquisition are not material to the Consolidated Statements of Operations for the years ended 1999 and 1998.

3. Balance Sheet Information

(In thousands)	December 31,	
	2000	1999
Inventories:		
Raw materials	**$ 60,281**	$49,609
Work in process	**23,703**	21,736
Finished goods	**16,078**	14,531
	$100,062	$85,876

(In thousands)	December 31,		Estimated
	2000	1999	Useful Lives
Property, plant and equipment:			
Land	**$ 6,662**	$ 6,662	
Buildings and improvements	**32,207**	26,828	10-40 years
Machinery and equipment	**54,332**	56,296	3-10 years
Leasehold improvements	**5,694**	5,627	3-7 years
	98,895	95,413	
Less accumulated depreciation and amortization	**38,801**	34,115	
	$ 60,094	$61,928	

(In thousands)	December 31,	
	2000	1999
Accrued expenses:		
Payroll and related benefits	**$ 12,302**	$ 8,740
Taxes, other than income	**3,695**	4,917
Customer deposits and advanced billings	**19,612**	4,512
Installation and warranty	**7,665**	7,557
Other	**12,819**	11,980
	$ 56,093	$37,706

Short-term Investments

Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date. All investments are classified as available-for-sale securities. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest (income) expense. Realized gains and losses, interest and dividends and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest (income) expense. The cost of securities sold is based on the specific identification method.

The carrying amounts of available-for-sale securities approximate fair value. The following is a summary of available-for-sale securities:

(In thousands)	December 31,	
	2000	1999
Commercial paper	**$15,730**	$19,047
Municipal bonds	**2,707**	14,527
Floating rate bonds	**—**	9,029
Corporate bonds	**—**	6,071
Obligations of U.S. Government agencies	**4,404**	2,003
Other debt securities	**4,054**	211
	$26,895	$50,888

All investments at December 31, 2000 have contractual maturities of one year or less. During the year ended December 31, 2000 and 1999, available-for-sale securities with fair values at the date of sale of approximately $110.5 million and $29.4 million, respectively, were sold.

4. Debt

Credit Facilities

The Company has an unsecured credit facility, (as amended the "Credit Facility"), which may be used for working capital, acquisitions and general corporate purposes. The Credit Facility provides the Company with up to $40 million of availability. The Credit Facility's interest rate is the prime rate of the lending banks, but is adjustable to a maximum rate of 1/4% above the prime rate in the event the Company's ratio of debt to cash flow exceeds a defined ratio. A LIBOR based interest rate option is also provided.

The Credit Facility expires December 31, 2001, but under certain conditions is convertible into a term loan, which would amortize quarterly through December 31, 2005.

The Credit Facility contains certain restrictive covenants, which among other things, impose limitations with respect to incurrence of certain additional indebtedness, payment of dividends, long-term leases, investments, mergers, consolidations and specified sales of assets. The Company is also required to satisfy certain financial tests.

As of December 31, 2000 and 1999, no borrowings were outstanding under the Company's Credit Facility and the Company was contingently liable for a letter of credit of approximately $3,271,000 issued under the Credit Facility and expiring in June 2001.

The Company's CVC subsidiary also had a $15 million bank line of credit at December 31, 2000, which allowed for maximum borrowings based on certain financial criteria and are at the prime interest rate. As of December 31, 2000, no borrowings were outstanding under this line. As of December 31, 1999, approximately $10,679,000 was outstanding under this line. On January 31, 2001, this line was terminated by the Company.

Notes Payable to Digital Shareholders

In April 1995, the stockholders of Digital received distributions in the amount of $8,000,000 in the form of unsecured promissory notes, bearing interest at 7.21 percent per annum with interest due quarterly and principal due on or before March 31, 2000. These notes were paid in March 2000. Interest relating to these notes approximated $144,000 in 2000 and $577,000 in 1999 and 1998.

Long-term Debt

Long-term debt is summarized as follows:

	December 31,	
	2000	1999
Term loan payable	**$ 5,480**	$ 6,723
Mortgage notes payable	**10,531**	10,827
Other	**51**	2,475
	16,062	20,025
Less current portion	**1,431**	2,773
	$14,631	$17,252

Term Loan Payable

In April 1998, CVC borrowed $8,000,000 from a commercial bank. The seven-year term loan requires monthly payments of principal and interest at 8.39% until April 2005. The obligation is secured by certain personal property and other intangibles of CVC including patents, patent applications and trademarks.

Mortgage Notes Payable

Long-term debt also consists of three mortgage notes payable, each secured by certain land and buildings with carrying amounts of approximately $3,492,000 and $11,957,000, respectively, at December 31, 2000. One mortgage note payable ($2,186,000 at December 31, 2000) bears interest at a rate of 8.5% and matures on October 14, 2002. The second mortgage note payable ($6,490,000 at December 31, 2000) bears interest at a rate of 7.75% until December 2002. For periods beginning January 2003 through December 2022, interest will be adjusted every five years using an average treasury yield plus 1.75%. This note is being amortized over a period of 25 years, with the final payment due on December 1, 2022. The third mortgage payable ($1,855,000 at December 31, 2000) bears interest at a rate of 8.29% through September 30, 2002 and matures on October 1, 2007. Beginning October 1, 2002, the Company will likely elect to pay interest on the remaining principal at the then prime rate plus one-half percent, or a rate equal to 225 basis points above the yield on U.S. treasury bonds.

Long-term debt matures as follows:

(In thousands)	
2001	$ 1,431
2002	3,366
2003	1,339
2004	1,376
2005	1,418
Thereafter	7,132
	16,062
Less current portion	1,431
	$14,631

5. Shareholders' Equity and Stock Compensation Plans

Historical net (loss) income and (loss) earnings per share determined on a pro forma basis as if the Company had accounted for its stock options granted subsequent to December 31, 1994 under the fair value method estimated at the date of grant using a Black-Scholes option pricing model follows:

(In thousands, except per share amount)	December 31,		
	2000	1999	1998
Pro forma net (loss) income	**$(30,546)**	$16,298	$9,692
Pro forma net (loss) income per share	**$ (1.28)**	$ .79	$ .52
Pro forma diluted net (loss) income per share	**$ (1.28)**	$ .76	$ .51

Fixed Option Plans

The Company has four fixed option plans. The Veeco Instruments Inc. Amended and Restated 1992 Employees' Stock Option Plan (the "Stock Option Plan") provides for the grant to officers and key employees of up to 2,826,787 options (65,100 options available for future grants as of December 31, 2000) to purchase shares of Common Stock of the Company. Stock options granted pursuant to the Stock Option Plan become exercisable over a three-year period following the grant date and expire after ten years. The Veeco Instruments Inc. 1994 Stock Option Plan for Outside Director, (as amended, the "Directors' Option Plan"), provides for automatic annual grants of stock options to each member of the Board of Directors of the Company who is not an employee of the Company. The Directors' Option Plan provides for the grant of up to 215,000 options (31,003 options available for future grants as of December 31, 2000) to purchase shares of Common Stock of the Company. Such options are exercisable immediately and expire after ten years. The Veeco Instruments Inc. 2000 Stock Option Plan (the "2000 Plan") was approved by the Board of Directors and stockholders in May 2000. The 2000 Plan provides for the grant to officers and key employees of up to 1,250,000 options (106,617 options available for future grants as of December 31, 2000) to purchase shares of Common Stock of the Company. Stock options granted pursuant to the 2000 Plan become exercisable over a three-year period following the grant date and expire after seven years. In addition, the 2000 Plan provides for automatic annual grants of stock options to each member of the Board of Directors of the Company who is not an employee of the Company. In this respect, the 2000 Plan is intended to replace the Directors' Option Plan. The Veeco Instruments Inc. 2000 Stock Option Plan for Non-Officer Employees (the "Non-Officer Plan") was approved by the Board of Directors in October 2000. The Non-Officer Plan provides for the grant to non-officer employees of up to 150,000 options (750 options available for future grants as of December 31, 2000) to purchase shares of Common Stock of the Company. Stock options granted pursuant to the Non-Officer Plan become exercisable over a three-year period following the grant date and expire after seven years.

In addition to the four fixed plans, the Company has assumed certain stock option plans and agreements related to CVC and Commonwealth Scientific Corporation, which plans and agreements were in effect prior to the merger with Veeco. These plans do not have options available for future grants, generally vest over a three-to-five year period and expire after five to ten years from the date of grant. As of December 31, 2000, there are 294,867 options outstanding under the various CVC and Commonwealth Scientific Corporation plans.

The fair values of the options issued under the plans at the date of grant were estimated with the following weighted-average assumptions for 2000, 1999 and 1998: risk-free interest rate of 6.4%, 5.6% and 5.5% respectively, no dividend yield, volatility factor of the expected market price of the Company's Common Stock of 80%, 64% and 59%, respectively, and a weighted-average expected life of the options of four years.

A summary of the Company's stock option plans as of December 31, 1998, 1999 and 2000, and changes during the years ended on those dates is presented below:

	1998		1999		**2000**	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	**Shares (000)**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	1,908	$15.64	2,451	$19.57	**3,065**	**$21.87**
Granted	1,221	23.36	1,003	29.21	**1,642**	**46.66**
Assumed in acquisition	—	—	123	13.95	**—**	**—**
Exercised	(425)	11.42	(331)	21.37	**(1,397)**	**18.62**
Forfeited	(253)	20.27	(181)	26.01	**(247)**	**32.10**
Outstanding at end of year	2,451	$19.57	3,065	$21.87	**3,063**	**$36.18**
Options exercisable at year-end	879	$11.91	1,258	$15.83	**809**	**$27.09**
Weighted-average fair value of options granted during the year		$11.18		$14.97		**$29.36**

The following table summarizes information about fixed stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range Exercise Price	Number Outstanding at December 31, 2000 (000's)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding at December 31, 2000 (000's)	Weighted-Average Exercise Price
$ 4.50	4	3.7	$4.50	4	$4.50
6.98-10.25	80	4.0	8.29	67	8.31
11.28-16.16	184	3.7	13.71	131	13.70
21.50-32.13	1,175	7.9	27.76	424	27.09
33.64-48.75	1,314	6.7	43.33	161	41.26
51.44-74.38	303	7.9	58.62	22	65.02
87.13-97.88	3	9.7	88.81	—	—
$ 4.50-97.88	3,063	7.0	$36.18	809	$27.09

Employee Stock Purchase Plan

Under the Veeco Instruments Inc. Amended and Restated Employee Stock Purchase Plan (the "Plan"), the Company is authorized to issue up to 250,000 shares of Common Stock to its full-time domestic employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual base earnings withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-year or end-of-year market price. Under the Plan, the Company issued 25,793 shares, 15,949 shares and 29,352 shares to employees in 2000, 1999 and 1998, respectively. The fair value of the employees' purchase rights was estimated using the following assumptions for 2000, 1999 and 1998, respectively: no dividend yield for all years; an expected life of one year for all years; expected volatility of 80%, 64%, and 59%; and risk-free interest rates of 6.0%, 4.5%, and 5.3%. The weighted-average fair value of those purchase rights granted in 2000, 1999 and 1998 was $21.30, $20.65 and $8.79 respectively.

As of December 31, 2000, the Company has reserved 3,265,976 and 135,156 shares of Common Stock for issuance upon exercise of stock options and issuance of shares pursuant to the Plan, respectively.

Preferred Stock

The Board of Directors has authority under the Company's Certificate of Incorporation to issue shares of preferred stock with voting and economic rights to be determined by the Board or Directors.

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

(In thousands)	December 31,	
	2000	1999
Deferred tax liabilities:		
Tax over book depreciation	**$ 2,673**	$ 3,849
Unamortized inventory accounting change	**—**	424
Other	**8**	8
Total deferred tax liabilities	**2,681**	4,281
Deferred tax assets:		
Inventory valuation	**9,399**	6,615
Domestic net operating loss carryforwards	**17,605**	553
Foreign net operating loss carryforwards	**190**	234
Warranty and installation	**2,593**	2,981
Other accruals	**3,065**	1,065
Deferred gross profit	**11,693**	—
Other	**1,260**	1,570
Total deferred tax assets	**45,805**	13,018
Valuation allowance	**(502)**	(655)
Net deferred tax assets	**45,303**	12,363
Net deferred taxes	**$42,622**	$ 8,082

For financial reporting purposes, (loss) income before income taxes and cumulative effect of change in accounting principle consists of:

(In thousands)	Year ended December 31,		
	2000	1999	1998
Domestic	**$(1,964)**	$30,458	$17,632
Foreign	**6,743**	5,446	2,015
	$ 4,779	$35,904	$19,647

Significant components of the provision (benefit) for income taxes are presented below:

(In thousands)	Year ended December 31,		
	2000	1999	1998
Current:			
Federal	**$ 5,476**	$12,247	$ 5,100
Foreign	**2,513**	2,738	546
State	**2,359**	2,430	1,699
	10,348	17,415	7,345
Deferred:			
Federal	**(5,571)**	(2,659)	(1,171)
Foreign	**268**	(468)	90
State	**(768)**	(365)	(254)
	(6,071)	(3,492)	(1,335)
	$ 4,277	$13,923	$ 6,010

The following is a reconciliation of the income tax expense computed using the Federal statutory rate to the Company's actual income tax expense:

(In thousands)	Year ended December 31,		
	2000	1999	1998
Tax at U.S. statutory rates	**$ 1,673**	$12,532	$ 6,871
State income taxes (net of Federal benefit)	**656**	1,299	888
Goodwill amortization	**144**	413	46
Nondeductible merger expenses	**3,623**	1,309	1,164
Other nondeductible expenses	**243**	178	244
Operating losses not currently realizable	**39**	91	14
Income of "S" Corporation not subject to Federal corporation tax	**—**	—	(1,513)
Operating losses currently realizable	**(223)**	(15)	(168)
Research and development tax credit	**(1,437)**	(1,000)	(805)
Benefit of foreign sales corporation	**(845)**	(1,118)	(460)
Release of valuation allowance	**—**	(130)	(53)
Other	**404**	364	(218)
	$ 4,277	$13,923	$ 6,010

The Company has domestic net operating loss carryforwards of approximately $30 million, which expire in the year 2020. The Company also has credit carryforwards (primarily research & development credits) of approximately $4.3 million, which expire in the years 2004 and 2020.

7. Commitments and Contingencies and Other Matters

Minimum Lease Commitments

Minimum lease commitments as of December 31, 2000 for property and equipment under operating lease agreements (exclusive of renewal options) are payable as follows:

(In thousands)	
2001	$3,566
2002	2,670
2003	1,506
2004	676
2005	382
Thereafter	992
	$9,792

Rent charged to operations amounted to $4,308,000, $3,833,000 and $2,591,000 in 2000, 1999 and 1998, respectively. In addition, the Company is obligated under the leases for certain other expenses, including real estate taxes and insurance.

Royalties

The Company has arrangements with a number of third parties to use patents in accordance with license agreements. Royalties and license fees expensed under these agreements approximated $522,000, $928,000 and $733,000 in 2000, 1999 and 1998, respectively.

Environmental Remediation

The Company may, under certain circumstances, be obligated to pay up to $250,000 in connection with the implementation of a comprehensive plan of environmental remediation at its Plainview, New York facility. The Company has been indemnified for any liabilities it may incur in excess of $250,000 with respect to any such remediation. No comprehensive plan has been required to date. Even without consideration of such indemnification, the Company does not believe that any material loss or expense is probable in connection with any remediation plan that may be proposed.

The Company is aware that petroleum hydrocarbon contamination has been detected in the soil at the site of a facility leased by the Company in Santa Barbara, California. The Company has been indemnified for any liabilities it may incur which arise from environmental contamination at the site. Even without consideration of such indemnification, the Company does not believe that any material loss or expense is probable in connection with any such liabilities.

The former owner of the land and building in which Digital's operating facilities and offices are located has disclosed that there are hazardous substances present in the ground under the building. Management believes that the comprehensive indemnification clause that is part of the purchase contract provides adequate protection against any environmental issues that may arise.

Litigation

In January 2000, Veeco received a revised calculation of damages in a 1988 patent infringement lawsuit in the U.S. District Court of Arizona. Pursuant to this revision, Veeco reversed approximately $420,000 of the $1,500,000 litigation reserve in 1999 that was no longer required and paid the required amount of $1,080,000. The reversal is included in other expense (income), net in the accompanying Consolidated Statement of Operations.

The Company is involved in various legal proceedings arising in the normal course of its business. In the opinion of the Company's management, based upon the advice of counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Related Party Transaction

The Company makes purchases of inventory from a company, which is owned partially by an individual who is also employed by the Company. Payments to this related company in 2000, 1999 and 1998 were approximately $4,126,000, $2,996,000 and $4,883,000 respectively.

The Company's business depends in large part upon the capital expenditures of data storage, semiconductor and optical telecommunications manufacturers, which accounted for the following percentages of the Company's net sales:

	December 31,		
	2000	1999	1998
Data storage	**44%**	62%	60%
Telecommunications	**23%**	7%	3%
Semiconductor	**15%**	11%	18%

Concentration of Credit Risk

Sales to Seagate accounted for approximately 18%, 19% and 15% and sales to IBM accounted for approximately 4%, 12% and 14% of the Company's net sales during the years ended December 31, 2000, 1999 and 1998, respectively. Each of the Company's segments sell to these major customers. At December 31, 1999, accounts receivable due from a customer represented 15% of aggregate accounts receivable.

The Company manufactures and sells its products to companies in different geographic locations. In certain instances the Company requires advanced deposits for a portion of the sales price in advance of shipment, however the majority of the system sales do not require such advance payments. The Company does, however, perform periodic credit evaluations of its customers' financial condition and, where appropriate, requires that letters of credit be provided on foreign sales. Receivables generally are due within 30-60 days. The Company's net accounts receivable are concentrated in the following geographic locations:

(In thousands)	December 31,	
	2000	1999
United States	**$45,637**	$33,168
Europe	**12,310**	14,225
Japan	**32,181**	23,936
Asia Pacific	**7,977**	8,273
Other	**143**	350
	$98,248	$79,952

Sale of Leak Detection Business

During the fourth quarter of 1999, the Company entered into an agreement to sell its leak detection business, which is part of the industrial measurement product segment. For the years ended 1999 and 1998, the leak detection business represented approximately $9,200,000, and $10,300,000, respectively, of consolidated net sales. The sale closed on January 17, 2000. As a result of the transaction, during 1999, the Company recorded a loss of $2,500,000 on the sale, including the write-off of approximately $1,000,000 of goodwill that was previously allocated to this line of business. The assets were included in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheet at December 31, 1999.

8. Foreign Operations, Geographic Area and Product Segment Information

Revenue and long-lived assets related to operations in the United States and other foreign countries as of and for the years ended December 31, 2000, 1999 and 1998 are as follows:

	Net Sales to Unaffiliated Customers			Long-Lived Assets		
	2000	1999	1998	**2000**	1999	1998
United States	**$356,424**	$266,551	$249,694	**$67,887**	$66,484	$57,034
Foreign Countries	**98,244**	114,562	64,992	**1,688**	1,314	367
Eliminations	**(68,000)**	(51,592)	(31,528)	**—**	—	—
	$386,668	$329,521	$283,158	**$69,575**	$67,798	$57,401

The aggregate foreign exchange gains and (losses) included in determining consolidated results of operations were (804,000), ($421,000) and $774,000 in 2000, 1999, and 1998, respectively.

The Company has three reportable segments: metrology, process equipment and industrial measurement. The Company's metrology product line manufactures and distributes to customers in the data storage and semiconductor industries, as well as research and development centers and universities. The Company's process equipment product line includes etch and deposition systems, primarily for data storage and optical telecommunications applications. The Company's industrial measurement products have applications in a wide range of industries including electronic, aerospace, transportation and semiconductor.

The Company evaluates performance based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Costs excluded from segment profit primarily consist of corporate expenses, including income taxes, as well as other non-recurring charges for purchased in-process technology, reorganization and asset impairment charges and merger-related costs. Corporate expenses are comprised primarily of general and administrative expenses.

The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

The following represents the reportable product segments of the Company:

	Net Sales			Operating Income (Loss)			Total Assets		
	2000	1999	1998	**2000**	1999	1998	**2000**	1999	1998
Metrology	**$159,830**	$112,172	$126,160	**$ 28,905**	$22,955	$26,328	**$112,029**	$ 64,959	$ 73,445
Process equipment	**216,283**	200,274	137,251	**20,721**	25,884	5,706	**149,847**	163,560	104,533
Industrial measurement	**10,555**	17,075	19,747	**(3,666)**	(2,000)	(5)	**8,045**	15,135	16,807
Unallocated corporate amount	**—**	—	—	**(9,238)**	(4,056)	(2,022)	**153,362**	97,542	27,210
Merger and reorganization expenses	**—**	—	—	**(14,206)**	(2,600)	(7,500)	**—**	—	—
Inventory write-off	**—**	—	—	**(15,322)**	—	—	**—**	—	—
Asset impairment charge	**—**	—	—	**(3,722)**	—	—	**—**	—	—
Loss on sale of leak detection business	**—**	—	—	**—**	(2,500)	—	**—**	—	—
Write-off of purchased in-process technology	**—**	—	—	**—**	(2,474)	—	**—**	—	—
Write-off of deferred charges	**—**	—	—	**—**	—	(675)	**—**	—	—
Total	**$386,668**	$329,521	$283,158	**$ 3,472**	$35,209	$21,832	**$423,283**	$341,196	$221,995

Other Significant Items

	Year ended December 31,		
	2000	1999	1998
Depreciation and amortization expense:			
Metrology	**$ 4,477**	$ 1,571	$ 1,674
Process equipment	**8,559**	7,678	4,865
Industrial measurement	**78**	129	122
Unallocated corporate	**2,437**	632	518
Consolidated depreciation and amortization expense	**$15,551**	$10,010	$ 7,179
Expenditures for long-lived assets:			
Metrology	**$ 7,222**	$ 4,230	$ 1,488
Process equipment	**11,653**	7,650	10,896
Industrial measurement	**7**	50	65
Unallocated corporate	**3,509**	3,768	678
Consolidated expenditures for long-lived assets	**$22,391**	$15,698	$13,127

9. Defined Contribution Benefit Plans

The Company maintains three defined contribution plans under Section 401(k) of the Internal Revenue Code. Principally all of the Company's domestic full-time employees are eligible to participate in one of the three plans. Under the plans, employees may contribute up to a maximum of 15% to 20% of their annual wages, depending on the plan. Employees are immediately vested in their contributions. Two of the plans provide for partial matching contributions by the Company, which vest over a two- or five-year period, depending on the plan. Company contributions to the plans were $1,324,000, $1,060,000 and $939,000 in 2000, 1999 and 1998, respectively.

10. Write-off of Deferred Charges

During 1998, CVC incurred costs aggregating $675,000 related to a potential initial public offering. These costs were accounted for as a deferred asset with the intent of deducting such amounts from contributed equity upon receipt of the proceeds from the initial public offering. During the fourth quarter of 1998, CVC suspended efforts to complete the public offering and, accordingly, these costs were charged against earnings.

Report of Independent Auditors

To the Shareholders and the Board of Directors
Veeco Instruments Inc.

We have audited the accompanying consolidated balance sheets of Veeco Instruments Inc. and Subsidiaries ("Veeco" or the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of CVC, Inc. ("CVC") which merged with Veeco in May 2000, which statements reflect total assets constituting 13% as of December 31, 1999, and total sales constituting 25% in 1999 and 24% in 1998 of the consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for CVC, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 1999 and 1998, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Veeco Instruments Inc. and Subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, in 2000, the Company changed its method of revenue recognition for certain products in accordance with the provisions of Staff Accounting Bulletin No. 101.

Ernst & Young LLP

Melville, New York
February 5, 2001

Report of Independent Accountants

To the Board of Directors and
Stockholders of CVC, Inc:

In our opinion, the consolidated balance sheet as of September 30, 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended September 30, 1999 of CVC, Inc. and its subsidiaries (not presented separately herein) present fairly, in all material respects, the financial position, results of operations and cash flows of CVC, Inc. and its subsidiaries at September 30, 1999 and for each of the two years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. We have not audited the consolidated financial statements of CVC, Inc. for any period subsequent to September 30, 1999.

PricewaterhouseCoopers LLP

Rochester, New York
October 18, 1999

Stock and Dividend Information

The Common Stock is quoted on the Nasdaq National Market® under the symbol "VECO". The 2000 and 1999 high and low closing prices are as follows:

	2000		1999	
	High	Low	High	Low
First Quarter	**$114.00**	**$37.00**	$62.25	$36.50
Second Quarter	**75.13**	**42.00**	43.88	29.81
Third Quarter	**115.50**	**67.81**	36.75	26.88
Fourth Quarter	**104.00**	**31.88**	49.13	24.63

On February 20, 2001, the closing price for the Company's Common Stock on the Nasdaq National Market was $42.88. As of February 20, 2001, the Company had approximately 206 shareholders of record.

The Company has not paid dividends on the Common Stock. The Company intends to retain future earnings, if any, for the development of its business and, therefore, does not anticipate that the Board of Directors will declare or pay any dividends on the Common Stock in the foreseeable future. In addition, the provisions of the Company's current credit facility limits the Company's ability to pay dividends. The Board of Directors will determine future dividend policy based on the Company's results of operations, financial condition, capital requirements and other circumstances.

Corporate Information

Board of Directors

Edward H. Braun
Chairman, CEO and President,
Veeco Instruments Inc.

Richard A. D'Amore
General Partner,
North Bridge Venture Partners

Joel A. Elftmann
Chairman,
FSI International (Nasdaq: FSII)

Heinz K. Fridrich
Industry Professor in the Department
of Industrial and Systems Engineering,
University of Florida

Douglas A. Kingsley
Senior Vice President, Advent International

Dr. Paul R. Low
President and CEO, PRL Associates

Roger D. McDaniel
Former President and CEO,
SpeedFam-IPEC, Inc. (Nasdaq: SFAM)

Irwin H. Pfister
Executive Vice President,
Schlumberger, Ltd. (NYSE: SLB)

Walter J. Scherr
Consultant and former
Executive Vice President,
Veeco Instruments Inc.

Corporate Management

Edward H. Braun
Chairman, CEO and President

Daniel C. Croucher
Vice President, Human Resources

Joel Geliebter
Vice President, Treasurer

John P. Kiernan
Vice President, Corporate Controller

Carmine D. Morello
Vice President, Chief Information Officer

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

Gregory A. Robbins
Vice President and General Counsel

Debra A. Wasser
Vice President, Corporate Communications
and Investor Relations

Operating Management

Kenneth T. Barry
President, New York
Process Equipment Operations

Hari Hedge, Ph.D.
Vice President, Process Technology

Robert D. Hempstead, Ph.D.
Chief Technology Officer

Don R. Kania, Ph.D.
President, Metrology Group

Richard A. Kellogg
Vice President, General Manager,
Rochester

Lloyd J. LaComb, Jr., Ph.D.
Senior Vice President, General Manager,
Optical Metrology Group

Emmanuel N. Lakios
President, Worldwide Sales
and Field Operations

Anthony W. Muraco
Vice President, General Manager,
Plainview Operations

Robert Oates
Vice President, General Manager,
NeXray, LLC

Judd Prozeller
Vice President, Quality

Allen R. Schwartz
Vice President,
Worldwide Customer Service

Henry Shii
Vice President, General Manager,
Japan

Francis Steenbeke
Vice President,
International Sales and Marketing

Robert J. Valentine
President, Ion Tech Inc.

Michael Weiss
Vice President, General Manager,
Asia-Pacific

Veeco Worldwide Offices

USA
Plainview, NY (corporate headquarters)*
Rochester, NY*
Ronkonkoma, NY*
Chadds Ford, PA
Delray Beach, FL
Bloomington, MN*
Ft. Collins, CO*
Tucson, AZ*
San Diego, CA*
Santa Barbara, CA*
San Jose, CA
*manufacturing facility

International
Dourdon, France
Cambridge, UK
Londonderry, N. Ireland
Munich, Germany
Mannheim, Germany
Dresden, Germany
Tokyo, Japan
Osaka, Japan
Singapore
Hsinchu, Taiwan
Penang, Malaysia
Seoul, Korea

Securities Counsel

Kaye Scholer
425 Park Avenue
New York, NY 10022

Independent Auditors

Ernst & Young LLP
395 North Service Road
Melville, NY 11747

Transfer Agent & Registrar

American Stock Transfer & Trust Co.
40 Wall Street
New York, NY 10005
1-800-937-5449

Investor Relations

Veeco welcomes inquiries from its stockholders and other interested investors. For further information on the Company's activities, additional copies of this report, the Annual Report on Form 10-K or other financial materials, please contact:

Investor Relations
Veeco Instruments Inc.
Terminal Drive
Plainview, NY 11803
(516) 349-8300
or visit our website at http://www.veeco.com

Stock Listing

The Company's Common Stock is listed on the Nasdaq National Market® under the symbol VECO. Options on Veeco's Common Stock are traded on the Chicago Board Options Exchange and the American Stock Exchange.

Annual Meeting

The 2000 annual meeting of stockholders will be held at 9:30 a.m. on Friday, May 11, 2001 at the Corporate Center, 395 North Service Road, Melville, New York.

Veeco, NEXUS, SPECTOR, Optium, Wyko, Nanoscope, Dektak and Dimension are trademarks of Veeco Instruments Inc.

To the extent that this annual report discusses expectations about market conditions or about market acceptance and future sales of the Company's products, or otherwise makes statements about the future, such statements are forward-looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. These factors include the cyclical nature of the data storage, optical telecommunication and semiconductor industries, risks associated with the acceptance of new products by individual customers and by the marketplace, and other factors discussed under the Management's Discussion and Analysis—Risk Factors sections above.

Designed by Curran & Connors, Inc. / www.curran-connors.com

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